

**Joint Legislative Study  
Committee on the State  
Building Renewal  
Formula and Process**

***Final Committee Report***

December 2000

Accession number: LSC00\_3

Note: Portions of original document of poor quality. Best possible microfilm.

Microfilm produced by the Records Management Center,  
Arizona State Library, Archives and Public Records.

**JOINT LEGISLATIVE STUDY COMMITTEE**  
**ON THE**  
**STATE BUILDING RENEWAL FORMULA AND PROCESS**

**FINAL COMMITTEE REPORT**

**December 2000**

**COMMITTEE MEMBERS**

**Senator Tom Smith, Cochair**  
**Senator John Huppenthal**  
**Senator Jack Jackson**  
**Stuart Goodman**  
**Bob Harris**  
**Dave Harris**  
**J. Elliott Hobbs**

**Representative Laura Knaperek, Cochair**  
**Representative Karen Johnson**  
**Representative Robert J. McLendon**  
**David Jankofsky**  
**Donald Keuth, Jr.**  
**Steve Miller**  
**Robert Teel**

ARIZONA DEPT. OF LIBRARY  
ARCHIVES & PUBLIC RECORDS  
NOV 04 2002  
**STATE DOCUMENTS**

# **JOINT LEGISLATIVE STUDY COMMITTEE ON THE BUILDING RENEWAL PROCESS AND FORMULA**

## **Committee Report**

### **Committee Charge**

Laws 2000, Chapter 228, established the Joint Legislative Study Committee on the State Building Renewal Formula and Process, effective until December 31, 2000. The Committee consists of:

- Six legislative members -- three from each chamber;
- Two representatives from each of the three state building systems; and--
- Two public members appointed by the Governor.

The Committee is charged with studying the building renewal formula and process with respect to each of the following:

1. The adequacy of the formula for generating sufficient monies for major maintenance and repair of state-owned buildings, and
2. The building renewal and building system process as a whole, to determine its effectiveness in providing for maintenance and repair of buildings, and reducing deferred maintenance.

The Committee is required to report its findings and recommendations to the Governor, President of the Senate and Speaker of the House of Representatives by November 15, 2000.

### **Committee Discussion**

The Committee met four times -- October 17<sup>th</sup>, October 31<sup>st</sup>, November 16<sup>th</sup> and December 18<sup>th</sup>.

*October 17, 2000*

At the first meeting, Joint Legislative Budget Committee (JLBC) staff presented information on past funding of the building renewal formula for the three state building systems. (See Attachment A and the minutes.) Items discussed include:

- The source of funding -- general fund, other funds, and the capital outlay stabilization fund (COSF), which consists of rent payments on state-owned buildings.

- The level of building renewal funding – since FY 1992, an average of 48 percent for the Department of Administration (ADOA) building system; 45 percent for the Board of Regents (ABOR) building system; and 92 percent for the Department of Transportation (ADOT) building system.
- The exclusion of deferred maintenance costs from the formula calculation.

Also at the October 17<sup>th</sup> meeting, ADOA presented information on structures that are eligible for building renewal funding. These include approximately 2600 facilities, only 30 of which pay rent into COSF. Other structures may pay rent through COPs, but these payments are not deposited into COSF, but rather are used to pay down the debt. Discussion occurred regarding the possibility of requiring more structures to pay rent or some other type of user fee into COSF. Information was also relayed to the Committee on the cost of deferred maintenance. The ADOA and ABOR submitted handouts to the Committee summarizing each of their perspectives on the building renewal formula and process. (Attachments B and C respectively.)

At the end of the meeting, Chairman Smith requested members to submit proposed recommendations to staff for discussion at the next meeting. The ADOA was also asked to provide documentation at the next meeting on the specific buildings/agencies exempt from paying rent into COSF, and JLBC staff was requested to provide information on how other states fund building renewal.

*October 31, 2000 –*

At the October 31<sup>st</sup> meeting legislative staff reviewed the proposed recommendations received from members (Attachment D). These recommendations include:

- Expanding the agencies/structures paying into COSF.
- Removing the funding of building renewal from the legislative process or establishing a dedicated revenue source.
- Restricting the use of COSF monies to building renewal/maintenance.
- Separating out preventative maintenance from emergency repairs.
- Establishing a minimum funding floor within the formula (eg., 75 percent).
- Reassessing the formula for funding adequacy.

In addition to discussing the proposed recommendations, the Committee received testimony from JLBC staff on methods used by other states for funding building renewal (Attachment E). The ADOA also provided documentation and testimony on structures currently exempt from paying into COSF. (See the ADOA's letter under Attachment D.) The Universities expressed concern over structures within the ABOR system paying rent. One of the major concerns raised by their representatives, as well as by other members of the Committee, was the cost to the general fund of this proposal. If rents or assessments could not be absorbed by an agency's current budget, there would be an impact to the general fund or other fund -- depending on the source of the agency's

budget. Representatives from the ADOT asked that the formula itself be examined, because in recent years the law has changed to allow a portion of their funding source to be used for infrastructure.

The ADOA and JLBC were requested by the Committee chairman to look into the potential for expanding rent and user fees to other state-owned and leased facilities, and to report back at the next meeting. In addition, Chairman Smith requested that a bill be drafted to set aside 100 percent of building renewal monies at the start of the budget process. The next meeting was scheduled for November 13<sup>th</sup>.

*November 13, 2000 –*

The meeting was cancelled and rescheduled for November 16<sup>th</sup>.

*November 16, 2000 –*

At the request of the Chairman, legislative staff presented proposed committee findings and a pared down version of the previous proposed recommendations (Attachment F). The recommendations fell into two categories: (1) direct funding/legislative by-pass, and (2) expansion of structures paying into COSF. Staff from the ADOA and JLBC also presented revenue estimates on possible rent expansion scenarios (Attachments G and H respectively). Members continued to express concern about the general fund impact, and requested staff to further refine the scenarios to reduce the impact. Additionally, representatives from the universities continued to express concern that the rent expansion option was not a viable option for the ABOR system. Their preference was direct funding/legislative by-pass.

The chairman indicated that there would be one more meeting where members would be asked to vote on a proposal. Staff was instructed to work with JLBC and ADOA to refine the rent assessment expansion proposal to cause minimal general fund impact. It was acknowledged that this proposal would affect the ADOA system only.

*December 18, 2000*

Chairman Knappert requested staff to review two documents that were submitted to the Committee. The first document consisted of two recommendations on which the Committee would be asked to vote (Attachment I), and the second consisted of a more "reader friendly" version of the spreadsheet distributed by JLBC at the November 16<sup>th</sup> meeting (Attachment J). With respect to the potential recommendations, Chairman Smith noted that any increase in funding to building renewal will impact the general fund and thus will necessitate a commitment by the policymakers to provide the funds. Chairman Smith moved the following recommendations, which were subsequently approved:

1. Recommend that the Legislature prioritize the full funding of the building renewal formula during the budget process.

2. Recommend that the Legislature use correction fund monies to fund building renewal of prisons, to the extent those monies are available.

Elliott Hibbs, Director of the ADOA, clarified that the Committee is finding that the building renewal formula itself is not inadequate, but rather the funds appropriated to support it have been insufficient to support the building renewal needs; thus the Committee is asking for prioritization of building renewal funding. It was agreed that this clarification, as presented at the November 16<sup>th</sup> meeting would be included in the Committee report.

### Committee Findings

The Committee finds that:

1. The building renewal formula provides adequate support for state building renewal needs.
2. Over the last decade, the ADOA building system has been funded at an average of 48 percent of the formula, the ABOR system at an average of 45 percent of the formula, and the ADOT system at an average of 92 percent of the formula.
3. General fund supported building renewal, has been funded at less than 100 per cent of the formula in all but one year during this time period. State highway fund supported building renewal has been funded at less than 100 percent of the formula three times since FY 1992.
4. Less than 100 percent funding of the building renewal formula has contributed to deferred maintenance costs of approximately \$78 million for the ADOA system and \$219.3 million for the ABOR system.
5. The State should adequately fund building renewal in order to avoid the long-term costs of deferred maintenance.

### Committee Recommendations

The Committee recommends the following:

1. The Legislature prioritize the full funding of the building renewal formula during the budget process.
2. The Legislature use correction fund monies to fund building renewal of prisons, to the extent those monies are available.

## Attachments

The following documents are attached to this report:

- Minutes from the October 17<sup>th</sup>, October 31<sup>st</sup>, November 16<sup>th</sup> and December 18<sup>th</sup> meetings
- Attachment A – JLBC overview of building renewal formula and funding history
- Attachment B – ADOA building renewal formula information packet and COSF overview
- Attachment C – ABOR building renewal highlights
- Attachment D – Recommendations received from Committee members
- Attachment E – States comparison of building renewal funding
- Attachment F – Potential committee findings and recommendations discussed at the November 16<sup>th</sup> meeting
- Attachment G – ADOA proposal and revenue estimates for expansion of rent and/or assessment payments (1% rate)
- Attachment H – JLBC revenue estimates for expansion of rent and/or assessment payments (.746% rate)
- Attachment I – Recommendations adopted by Committee on December 18<sup>th</sup>
- Attachment J – “Reader –friendly” version of JLBC revenue estimates for expansion of rent and/or assessments payments

## **MINUTES**



Ker

ARIZONA STATE LEGISLATURE  
Forty-fourth Legislature - Second Regular Session

**JOINT LEGISLATIVE STUDY COMMITTEE ON THE  
STATE BUILDING RENEWAL FORMULA AND PROCESS**

Minutes of Meeting  
Tuesday, October 17, 2000  
Senate Appropriations Room #109 - 1:30 p.m.

(Tape 1, Side A)

The meeting was called to order at 1:35 p.m. by Senator Smith and attendance was noted by the secretary.

**Members Present**

Stuart Goodman  
Bob Harris  
Dave Harris  
David Jankofsky  
Senator Smith, Chairman

Donald Keuth, Jr. -  
Representative Knaperek  
Representative McLendon  
Steve Miller  
Robert Teel

**Members Absent**

Senator Huppenthal (excused)  
Senator Jackson

Representative Johnson  
J. Elliott Hibbs

**Speakers Present**

Lorenzo Martinez, Senior Fiscal Analyst, Joint Legislative Budget Committee (JLBC)  
Tim Brand, General Manager, Building & Planning Services Section, Arizona Department of  
Administration (ADOA)

**Election of Chairman**

Mr. Keuth nominated Senator Smith as Chairman, seconded by  
Mr. Goodman. The motion carried.

**Opening Remarks**

Chairman Smith reviewed the purpose of the Committee (Attachment 1).

## Presentation on State Building Renewal Formula and Formula Funding

Lorenzo Martinez, Senior Fiscal Analyst, Joint Legislative Budget Committee (JLBC), reviewed a handout concerning the building renewal formula (Attachment 2). Directing the Members' attention to the last column of the chart on the second page, he pointed out that the reason for the difference in percentages of the three systems is the funding source. The Arizona Department of Transportation (DOT) is funded from the State highway fund, the Arizona Board of Regents (BOR) is funded from the general fund, and the Arizona Department of Administration (DOA) is funded from a combination of the general fund and the Capital Outlay Stabilization Fund (COSF). The percentage is lower for DOA and BOR since the primary source is the general fund and there is competition for those dollars. He added that DOA numbers exclude building renewal funding for the Arizona Exposition and State Fair Board, the Arizona Game and Fish Department, the Arizona Lottery, and the Southern Arizona Mental Health Center. Those agencies have their own funding sources and are traditionally funded at 100 percent of the formula.

Chairman Smith noted that there is no strong advocacy group for the building renewal formula, and as a result, it is probably the first place the budget is cut and the last to obtain full funding. He knows this causes hardships because many years ago he toured State buildings, including the roofs, which is the first place where money is usually saved. Last year he toured Northern Arizona University buildings, which have cracks in the concrete due to the extreme hot and cold temperatures in Flagstaff.

Mr. David Harris cited figures relating to the building renewal formula for State universities (Attachment 3).

Mr. Martinez advised Mr. Miller that the Sherman-Dergis formula essentially calculates, on a year-by-year basis, what the building renewal amount should be for the building replacement cost and its age. It does not take into account deferred maintenance issues; therefore, if the formula is not fully funded one year, the next year's calculation does not reflect the fact that the prior year was not fully funded.

Discussion followed concerning the possibility of other funding sources for the building renewal formula, such as rent. Mr. Lorenzo indicated that rent from agencies is deposited into the COSF. An appropriation is traditionally provided to DOA for items such as utilities and landscaping, and whatever remains in COSF is traditionally applied for building renewal; however, COSF alone is typically not enough to fully fund the building renewal formula. The only other funding source typically used is the general fund and there is competition for those dollars. He related that the Department of Public Safety (DPS) is currently eligible for building renewal dollars, but he does not believe the agency pays rent into COSF.

Tim Brand, General Manager, Building & Planning Services Section, Arizona Department of Administration (DOA), advised that there are 2,600 structures in the DOA building system and only 30 actually pay rent into the COSF account. A portion of the money can be distributed to any of the 2,600 for specifically listed improvements for building renewal needs. He advised Chairman Smith that the Arizona Game & Fish Department uses the same formula, but has its

own funding source. He related several examples in which repairs were made in an emergency situation when the cost would have been much less if regular maintenance had been possible:

- An 8" water return line to the DOR cooling tower would have cost \$2,000, but because it could not be fixed until it was broken, the cost was \$6,800.
- The air handling drain pans in the Senate would have cost \$5,000, but cost \$36,000
- Expansion tanks for the air conditioning systems in the west wing capitol tower and a Tucson complex would have cost \$200 on a regular schedule, but when the situation became critical, the cost was \$4,500.

He added that there are several other examples. The total cost would have been about \$25,000 if DOA could have done what was needed routinely, but because repairs were done when a catastrophe occurred, the total cost amounted to \$112,000. For every dollar that is not used when it should be, it costs \$6 when the repair becomes mission critical. He provided an information packet to the Members (Attachment 4).

Mr. McLendon commented that he has been on the Appropriations Committee for years, and when the Members are building the budget, there are many different ways to spend general fund money. It is especially difficult with term limits because new Legislators do not understand the importance of building renewal funds and continuous reeducation is necessary. He added that building renewal monies should be considered a high priority because it makes good fiscal sense.

At Mr. Teel's request, Mr. Brand related that issues were not addressed until a critical situation occurred because of a shortage of funds. DOA has to make sure State government runs smoothly, so critical issues must be addressed each year, which never leaves enough money for routine maintenance to extend the useful life of the rest of the buildings. He related to Chairman Smith that all 2,600 facilities need maintenance even though all are not maintained at the same level, and all are included in the building renewal formula.

Mr. McLendon opined that the difficulty with formulas is that they do not take care of the problem. If there are not enough votes to fund the formula properly, it will not be done. He noted that the amount is always fairly significant and suggested splitting the amount into departments so it does not seem so major.

Chairman Smith and Mrs. Knaperek indicated that the building renewal formula should be recommended as a priority issue. Mr. Goodman submitted that a host of coalitions work on education and other issues during the time the budget is developed, but there is no coalition working on this particular issue. During the budget process, it is easy to forget about building renewal when Legislators are reminded about education, Medically Needy/Medically Indigent, etc. He added that unless some sort of coalition is developed to spearhead the charge, the problem will continue.

Chairman Smith suggested recommending the building renewal formula as a first or second priority with money set aside that cannot be used for any other purpose. Mr. Teel indicated that DOA has some ideas to share with the Committee including a sacrosanct fund and finding creative ways to obtain monies for the fund.

Chairman Smith indicated that another meeting will be held during the first week of November 2000. He asked DOA and anyone else with suggestions to provide the suggestions in writing to Debbie Johnston, Senate Research Analyst, within 10 days so she can mail a copy to each of the Members to review before the next meeting.

Mr. Bob Harris indicated that he is almost ashamed to say anything considering the figures presented by Mr. Martinez for DOA and BOR compared to DOT, but even at DOT, a number of items need to be accomplished. He speculated that a review of the formula might be appropriate. He indicated that about two years ago, the law was changed to allow use of renewal funds for infrastructure up to 25 percent, so now those dollars are spread out over a greater space with no increase in funding.

Chairman Smith asked Mr. Martinez to find out if the formula is still being used around the country. Mr. Martinez responded that the National Association of State Budget Officers recently prepared a report on some capital items. In briefly reviewing the document, he believes Arizona is the only state that uses a formula.

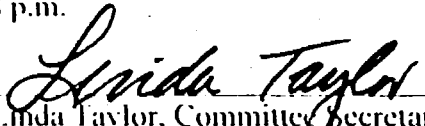
Mr. Miller asked if the Committee is interested in ideas to reduce deferred maintenance. Chairman Smith answered affirmatively and asked that suggestions be concise, succinct, and not more than two pages. Discussion followed.

Chairman Smith asked DOA to include in the information who is and is not paying rent in order to determine if a fair share is received for the buildings. Mr. Brand advised Mr. Goodman that all 2,600 facilities are eligible for building renewal from DOA's annual appropriation. Of those 2,600, only 30 pay rent. Some office buildings located on the Capitol Mall are under certificates of participation (COP) and do not pay rent into COSF. The rent is used to pay the debt on the buildings each year. He added that DPS headquarters at Encanto Park does not pay rent into COSF, but if a catastrophe occurred, DOA would be asked for building renewal funds.

Mr. Martinez pointed out that if additional rent is being considered, a significant portion of agencies are general-funded, so general fund monies would have to be appropriated to their budgets for transfer to COSF. The current rate is about 70 percent general fund and the remainder would be other appropriated funds.

Chairman Smith reiterated the fact that suggestions should be provided to Ms. Johnston by October 27, 2000 to be mailed to the Members before the next meeting during the first week of November 2000.

Without objection, the meeting adjourned at 2:28 p.m.

  
Linda Taylor, Committee Secretary

(Original minutes, attachments, and tape are on file in the Office of the Chief Clerk. A copy of the minutes and attachments are filed with the Senate Secretary.)

KCF

ARIZONA STATE LEGISLATURE  
Forty-fourth Legislature - Second Regular Session

JOINT LEGISLATIVE STUDY COMMITTEE ON THE  
STATE BUILDING RENEWAL FORMULA AND PROCESS

Minutes of Meeting  
Tuesday, October 31, 2000  
Senate Appropriations Room 109 - 1:30 p.m.

(Tape 1, Side A)

The meeting was called to order at 1:37 p.m. by Chairman Smith and attendance was noted by the secretary.

Members Present

Senator Huppenthal  
Stuart Goodman  
Dave Harris  
J. Elliott Hibbs  
David Janofsky  
Senator Smith, Chairman

Representative Johnson  
Donald Keuth, Jr.  
Steve Miller  
Robert Teel  
Representative Knaperek

Members Absent

Senator Jackson  
Bob Harris

Representative McLendon

Speakers Present

Debbie Johnston, Senate Research Analyst  
Tim Brand, General Manager, Building and Planning Services Section, Arizona Department of Administration (DOA)  
Lorenzo Martinez, Senior Fiscal Analyst, Joint Legislative Budget Committee (JLBC)

Chairman Smith thanked everyone for the suggestions that were submitted and reviewed the purpose of the Committee. He stated that this is probably one of the most difficult problems he has encountered during several years at the Legislature.

Review of Proposed Recommendations

Debbie Johnston, Senate Research Analyst, reviewed proposed recommendations (Attachment 1).

Mr. Hibbs acknowledged that this is a difficult issue and noted that facilities have always been at the bottom of the budget tier when the State's scarce resources are allocated. He opined that the best option is to charge rent to all of the State-owned buildings.

Senator Huppenthal submitted that the cost of maintaining buildings is proportionate to the linear footage of the exterior walls. He suggested that the Committee recommend an analysis of the cost savings of construction of one or several buildings to house agencies currently located in numerous buildings. He speculated that a savings would be realized on computer systems and security. There would also be less linear feet on the exterior surface of the buildings to maintain.

Mr. Hibbs said the premise behind efforts to construct 11 new buildings on the Capitol Mall over the next 10 years is to consolidate because agencies are currently spread all over, resulting in inefficiencies and inconvenience to the public.

Mrs. Knaperek opined that the Government Information Technology Agency (GITA) should be involved. Mr. Dave Harris pointed out that the State university system has over 1,000 buildings located on five campuses in three communities, so that concept would be difficult. Chairman Smith stated that Senator Huppenthal's theory is good, but the Committee must determine how to maintain present buildings.

Tim Brand, General Manager, Building and Planning Services, Arizona Department of Administration (DOA), related that there are 2,600 improvements in the DOA building system and about 300 are major structures over 10,000 square feet. He opined that assessment of a fee on structures eligible for building renewal monies would be the fairest option.

Mrs. Knaperek asked if the universities should be treated separately from DOA structures. Mr. Miller said he is concerned about this approach because the operating budget of the university system is funded from the general fund and collections. Incorporation of a rent structure would require an increase in the general fund, and if that were not possible, additional collections would be needed, possibly shifting the burden of a State asset to students.

Mr. Janofsky commented that DOT has been relatively better off than the other building systems since it is not a general fund agency; however, as a matter of principal, steps should be taken in the short-term to fully fund the building renewal formula. For example, legislation stating that upon notification by the Director of JLBC, the State Treasurer shall deposit a certain amount into the building renewal account from various funding entities, i.e., the general fund and the State highway fund. In the long-term, further work beyond the scope of the Committee could be recommended to address questions such as whether or not the building renewal fund is adequate, if one size should fit all, and if more consolidation is needed.

Chairman Smith surmised that the Committee needs to consider charging rent from all of the buildings, determining a percentage of funding for the building renewal formula, and setting money aside in an emergency fund.

Mr. Dave Harris related that establishment of a floor was discussed within the university system, but there was concern that the percentage minimum would become the norm. Mr. Janofsky

agreed that sometimes a floor becomes a target, even though it would be more than what is currently received. He stated that as one of his last official acts at DOT, he would not like to be party to establishing a 65 percent floor, for example, when 100 percent funding was received by DOT last year.

Chairman Smith remarked that DOT could continue with the present formula for funding. He pointed out that a maximum is not mentioned, so a floor, such as 75 percent, could be set and anything above that would be acceptable. Mr. Janofsky agreed, but reiterated the fact that a floor is often used as a target.

Mr. Teel perceived that the Members agree that the building renewal formula is barely adequate because anything funded or appropriated below the formula ends up in deferred maintenance, and since the formula has not been fully funded, deferred maintenance increases every year. Two years ago, the DOA system was at \$51 million and increased in the last two years to \$71 million. From DOA's perspective, a floor means full funding of the formula.

Mr. Goodman agreed that if an amount lower than 100 percent is allowed, that is what will be obtained. He suggested merging the last two recommendations so 100 percent would be required with a triggering mechanism that under certain conditions the formula could be funded below 100 percent, but not less than a certain percentage.

Mr. Hibbs responded that he believes that is what DOA is attempting to do by suggesting that the Capital Outlay Stabilization Fund (COSF) be dedicated. Money goes into the fund, but it is currently raided for other needs. He submitted that the DOA system would be 100 percent funded if COSF were a dedicated fund for facilities purposes only, rent could be collected for buildings not currently contributing to maintenance, and the rental rate increases requested for the next biennium are approved.

Mr. Brand advised Chairman Smith that COSF annually collects about \$11 million.

Lorenzo Martinez, Senior Fiscal Analyst, Joint Legislative Budget Committee (JLBC), related that in FY 2001, of the revenues in the COSF, about \$8.5 million was appropriated to the DOA operating budget to pay for utilities and maintenance, such as landscaping, for State-owned buildings. The remainder is used to help pay building renewal costs, but this past year, \$400,000 was used for renovations in the Capitol Tower. Typically, what is left over is in the \$2 million range. He added that JLBC recently received a request for building renewal for FY 2002-2003, and the general fund COSF component for building renewal for DOA amounts to between \$18 million and \$19.5 million.

He advised that the requirement for the university building system is \$42.3 million in FY 2002 and \$45.6 million in FY 2003 from the general fund. DOT amounts to a bit over \$2.7 million in FY 2002 and \$2.8 million in FY 2003, which is funded from the State highway fund and typically fully funded.

Mr. Martinez related that the buildings currently paying rent are categorized as office buildings. Under the recommendation, State Parks, for example, would be charged a fee for building renewal for facilities and latrines. Another major component would be State prisons.

Mr. Brand clarified that the DOA recommendation is to charge rent for office buildings, but an assessment for improvements not classified as actual office buildings. Agencies in State-owned buildings are currently charged \$13.50 per usable square foot, so an assessment might be 1/100th of a percent of the value of the improvement. State Parks would be charged an assessment on structures for building renewal purposes.

Senator Huppenthal asked if agencies would be more inclined to minimize costs for space. Mr. Brand responded that DOA typically reviews all executive agency leases and checks market rates. If a request appears to be high, the agency is taken to task, but most agencies do an excellent job of negotiating rates.

Mr. Brand advised Mrs. Knaperek that the buildings listed on a handout (top portion) do not pay rent, but building renewal funds are used to maintain the structures (Attachment 3). The structures under certificates of participation (COP) make an annual debt payment that does not go into the COSF. DOA suggests that the buildings on the top portion of the handout pay rent/fees. He related that recent renovations in the House were paid for by the House, but building renewal funds were used in the past few years for elevator renovations, upgrading the fire system, etc. He indicated that everybody in the Executive Tower pays rent, including the Governor's Office.

Mrs. Knaperek noted that the distressed properties that were purchased are probably worth much money and asked if consideration has been given to selling those and depositing the money into the building renewal fund. Mr. Hibbs replied that a variety of ideas were discussed, such as selling the property and using the money to build other buildings, etc., but not necessarily for the building renewal formula. It has not been done primarily because renting space in the private sector to replace the property sold would cost more.

(Tape 1, Side B)

Mrs. Knaperek asked about selling the distressed properties and moving the present occupants to the 11 new buildings to be constructed on the Capitol Mall. Mr. Brand said that is part of the 10-year plan. He advised Mrs. Johnson that two buildings currently underway are privatized lease-to-own so present lease fees are used to pay a developer to build the buildings. Certain legislative buildings in the 10-year plan may be cash on the barrel, but each building can be funded differently by whatever financial tool best meets the needs at that time.

Chairman Smith asked if the Committee wants to charge everyone rent. Mrs. Knaperek said she would like to do that. Chairman Smith said he believes a dedicated fund for COSF is possible and a base of 75 or 80 percent of the building renewal formula as a minimum could be set. Mrs. Knaperek noted that DOT has no problems because funds are derived from the State highway fund. She suggested earmarking a revenue source as a dedicated fund or mandating in statute that the Legislature do so.



Chairman Smith indicated that rent could be charged, excluding DOT. Mr. Miller reiterated the fact that the funding sources associated with the universities are the general fund and collections, so additional monies would have to be appropriated to the operating budget to pay the rent. Because collections are another funding source, if monies are not appropriated, costs would be shifted to the students.

Mr. Teel indicated that charging rent for the DOA building system seems to be appropriate. Although there has not been time to fully research the idea, he believes the general fund would be hit, as well as many other funds, but the general fund would not be hit for the full amount. It would probably not be a huge number or a big burden to the agencies. He added that the issue should be reviewed before making a firm recommendation. Mr. Hibbs agreed to work with JLBC to identify sources of additional rent or maintenance fee funds to determine the impact to the general fund, if federal monies would apply, etc. Mr. Brand related to Mrs. Johnson that COP buildings would be included.

Chairman Smith asked if the Committee wishes to recommend COSF as a dedicated fund for building renewal purposes only. Mr. Martinez confirmed that it could be done, but pointed out that the \$8.5 million currently in the DOA budget to pay for utilities would have to be made up from some other funding source.

Chairman Smith noted that the Committee agrees that DOA should work with JLBC to find out if fees can be charged and that a minimum percentage should be determined for funding of the building renewal formula. Mr. Keuth said there should be some way to make sure that if 100 percent is not provided, the minimum could be used, but 100 percent must be used the next time. Chairman Smith indicated that the Committee could say in extreme cases, minimum funding could be 80 percent, but the goal is 100 percent.

Mrs. Knaperek opined that a floor should not be set because 100 percent of the formula is necessary to take care of current needs and would not even take care of anything new that is happening. She opined that the university option to be treated like K-12 education should be pursued further and charging rent should be considered for the DOA system only.

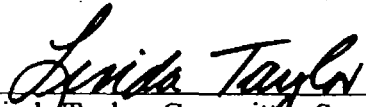
Mr. Martinez referred to a handout showing states with earmarked funds or automatic appropriations for preservation of assets and states in which the preservation of assets competes with other budget items (Attachment 4). Italicized states have certain mechanisms for guaranteeing building renewal funding. Mrs. Knaperek pointed out that Utah's statutory requirement to fund 0.9 percent is basically equivalent to the building formula and Mr. Martinez agreed. Mrs. Knaperek said that looks like the best option since it is simple and appears to have worked for Utah.

Chairman Smith noted that the following items will be done:

- DOA will check with JLBC about rent.
- A bill will be drafted to state that 100 percent of the building renewal formula will be set aside at the start of the budget process.

- He will talk to Phil Geiger, who is in charge of Students FIRST, about developing a solution similar to that for capital facilities.
- The Committee will meet again on Monday, November 13, 2000 at the same time to make definite recommendations and vote.

Without objection, the meeting adjourned at 2:53 p.m.

  
Linda Taylor, Committee Secretary

(Original minutes, attachments, and tape are on file in the Office of the Chief Clerk. A copy of the minutes and attachments are filed with the Senate Secretary.)

## ARIZONA STATE LEGISLATURE

### JOINT LEGISLATIVE STUDY COMMITTEE ON THE STATE BUILDING RENEWAL FORMULA AND PROCESS

Minutes of the Meeting  
Thursday, November 16, 2000  
Senate Appropriations Room (109) 3:00 P.M.

#### Members Present:

Senator Tom Smith, Cochair  
Stuart Goodman  
Bob Harris  
Dave Harris

Representative Karen Johnson  
Steve Miller  
Robert Teel  
J. Elliott Hibbs

#### Members Absent:

Senator John Huppenthal  
Senator Jack Jackson  
David Jankofsky

Representative Laura Knaperek, Cochair  
Representative Robert J. McLendon  
Donald Keuth, Jr.

#### Staff:

Debbie Johnston, Senate Research Analyst

#### Tape 1, Side A

Cochair Smith called the meeting to order at 3:05 p.m. and attendance was noted.

Senator Smith explained that he knew there would not be a quorum for today's meeting, however, he decided that the Committee should move forward and hear informational testimony.

#### Approval of Minutes

The minutes of the October 31, 2000 meeting were not approved, as there was not a quorum present.

Senator Smith, referring to Attachment A, entitled "Joint Legislative Study Committee on the State Building Renewal Formula and Process", read the purpose of the Committee.

Senator Smith asked staff to send out a memo stating that the Committee was unable to meet and submit the final report on time and that the final report will be submitted by December 31, 2000 if possible.

**Debbie Johnston, Senate Research Analyst**, explained that Cochair Smith and Knaperek met within the last week to discuss possible recommendations, which fell into two categories. She distributed a handout entitled "Joint Legislative Study Committee on the State Building Renewal Formula and Process, Possible Findings and Recommendations" (Attachment B). Her testimony came from the handout.

Senator Smith commented that funding for the process would have to be obtained from the General Fund. He stated any attempt to bypass the Appropriations Committee would probably not be successful. He remarked that the second option of incorporating new rents and assessing the formula is more palatable. He opined that some type of modified rent or user fee formulated for each building and agency is a good plan. He noted that the agencies would not be able to afford to pay the full rent, due to their budgets, but they might be able to pay a modified rent or user fee.

Mr. Robert Teel commented that the Arizona Department of Administration (ADOA) has looked into that situation and opined that it would be worthwhile to listen to a presentation from them.

**Lorenzo Martinez, Joint Legislative Budget Committee staff (JLBC)** explained that ADOA staff created a methodology for developing an assessment for entities that currently do not pay building rent or some other type of fee. He distributed a spreadsheet handout entitled "Agencies In COP Buildings" (Attachment C). Mr. Martinez stated that under the ADOA assessment, whatever building renewal that is not funded, is spread amongst the entities that do not currently pay rent. He stated that this would generate approximately \$12.8 million and of this amount, \$11 million would have to come from the General Fund. He noted that the building renewal formula would require \$17 million compared to \$12.8 million and of that amount, \$14.3 million would have to come from the General Fund. He explained that under the methodology developed by the ADOA assessment, the cost of the unfunded amount is spread to certain entities and does not equate to the building renewal formula. For example, all of the entities would pay the same percentage for the unfunded amount. He added that for some entities, the building renewal requirement may be less than the amount that they would be charged under the assessment fee while other entities would have to pay more, which would not equate to their building renewal needs, per the formula.

In response to Senator Smith, Mr. Martinez stated that in FY 2002, the annual cost to fully fund the building renewal formula from the General Fund would be \$60.4 million. He stated that the assessment fee would be applied to the ADOA building system and would not impact the University building system. He commented that for the ADOA building system, the requirement for building renewal in FY 2002 is \$18.1 million, and the formula for the user fee would bring in \$12.8 million.

Mr. Martinez explained that the agencies that currently pay rent generate approximately \$11 million with \$8.5 million going to the ADOA operating budget, leaving \$2.5 million for building renewal. He stated that \$2.5 million is subtracted from the total requirement

of \$18.1 million, leaving \$15.5 million that would need to be funded from the assessment to the entities that do not pay rent.

In response to Senator Smith, Mr. Martinez explained that in FY 2001, approximately \$11 million was generated from rent payments. He stated the amount generated with a formula for the entities and agencies that are not paying rent would be approximately \$12.8 million. He commented the ADOA cost associated for maintenance and operation is approximately \$8.5 million.

J. Elliott Hibbs stated that it would appear that ADOA is approximately \$2.8 million short, using this methodology.

Mr. Martinez stated that was correct. He stated that in the spreadsheet rents that are currently being paid were used because the original estimates that were used by ADOA, when the assessment was developed, assumed that the rents would increase. He opined the new recommended rental rates would generate more than \$11 million.

Jack Jones, ADOA, General Services explained the reason the figure is coming up short is because ADOA proposed a 7.46 percent assessment factor. He stated that particular option had additional rents for the legislative branch - the Senate and the House of Representatives. He stated ADOA did not have the additional rents built in and the assessment factor was not based on additional rate factor.

Senator Smith, reiterating Mr. Martinez' testimony, stated that currently the State is receiving \$11 million for rent. Under the new formula, there would be an additional \$12.8 million collected. He noted \$8.5 million is the cost associated with operational maintenance (M&O) for the buildings, which when subtracted from the \$11 million rent leaves approximately \$2.5 million. He stated the remaining \$2.5 million added to the \$12.8 million equals \$15.3 million. He noted that this excludes the Department of Transportation and the Universities. He asked how much additional money is needed over the \$15.3 million for the building renewal formula for state buildings.

Mr. Martinez replied that amount would be \$2.8 million and opined that the ADOA proposal would have that amount coming from some of the legislative agencies that currently do not pay rent.

Senator Smith opined that appropriating the money needed from the General Fund would fill in the gap from what will be collected from the user fee and the rent that is presently collected minus the \$8.5 million. He noted that by using the user fee there is a \$3-4 million shortage for fully funding the building renewal formula and opined that the deficit should be taken from the General Fund.

Mr. Martinez stated that of the \$12.8 million that would be generated from the fees, approximately \$11 million would have to come from the General Fund.

Senator Smith asked if Mr. Martinez was stating that the \$11 million would have to come from the General Fund because it would be coming out of the agencies' budget, and therefore coming out of the General Fund. Mr. Martinez stated that was correct.

Senator Smith stated that it boils down to how much can the agencies or entities pay for their user fee within their current budgets. He opined that the agencies would say that they could not pay anything towards that user fee.

Mr. Steve Miller asked if the \$11 million would have to be added to the budgets of those agencies that are currently not paying rent. Mr. Martinez stated the \$11 million assessment would be applied to agencies that are funded through the General Fund. He commented that whether the agencies are made to absorb this cost out of their current budgets or whether that cost is added into their budgets, the money would all come from the General Fund.

Mr. Martinez, referring to Attachment C, page two, under non-rent agencies, noted there is a General Fund column, which is what the assessment would generate from the General Fund from those agencies listed. For example, if the assessment were applied to the Department of Corrections, which is a General Fund agency, the agency would have to come up with \$5.6 million.

Mr. Hibbs stated that the numbers that are being discussed are the current year numbers and there is a proposal to increase the rents. He asked if the FY 2002 numbers on Attachment C are reflective of the higher rent that is being proposed. Mr. Martinez stated that the columns on the right reflect what the building renewal formula requirements are for those agencies. He noted that those figures did not factor in any increase in rent collections.

Mr. Hibbs stated that if the figures did include increased rent collections it would adequately fund the formula.

Mr. Martinez stated the additional increase in rent would generate approximately \$1.5 – 2 million in rent. He stated the difference, as demonstrated in Attachment C, page two, under the non-rent agencies, the first five or six listings are those legislative buildings that the ADOA proposal would apply the entire rent amount to, not just the assessment.

Mr. Hibbs commented that he is not suggesting that that be done. He remarked that this next year, another \$1.5 million would be generated in rent, so where presently there is a gap of \$2.8 million, with the additional rent, the gap would be reduced to \$1.3 million. He stated with a small adjustment to the .746 assessment factor, there would be adequate funding for the building renewal formula and a continuation to fund the M&O costs as well.

Mr. Jones distributed a handout entitled "ADOA Recommendation – Building Renewal Assessment Fee" (Attachment D) and explained that he took the numbers that Mr. Martinez had and slightly modified them. He noted that since he did not use the rent

from buildings that are not currently paying, the assessment factor was changed from .746 to 1.0 percent and applied that against all buildings in the ADOA building system that do not currently pay rent and maintained the \$13.50 per square foot rental. The remainder of his testimony was a summary of the handout.

Mr. Hibbs stated that if keeping to the requirement was desired, the 1.0 percent could be scaled back half of a percent.

Mr. Jones commented that the same would apply if the rents were raised from \$13.50 to \$15.00 a square foot, which could also be scaled down if necessary. He noted the \$11 million that is collected each year from rent is split approximately 70 percent from the General Fund and 30 percent from other funds. He remarked that Mr. Martinez' calculation on the assessment reflects 85 percent from the General Fund. He commented that if the rents are raised, more monies from other funds could be tapped into other than the General Fund.

Senator Smith stated if the rents are raised, the agencies will be requesting additional money for their budgets. He opined that would only be disguising which fund the rent monies are obtained from.

#### **Tape 1, Side B**

Mr. Hibbs commented that it becomes a question of whether buildings are the last item on the budget and then it is found that there is never any money left or that this issue is handled on a regular basis. He noted that the way to insure that it is done on a regular basis, in regard to ADOA, is by building it into the rents that the agencies have and then having the agencies pay it to the COSF fund. He remarked that otherwise, every year, it will be the same battle over and over again. He stated that in the last ten years, which have been the best of times, the buildings have not been funded.

Senator Smith stated that it appears that a big block of money that is needed for the building renewal formula is being split up between agencies, requiring them to pay user fees. This will cover the building renewal formula, which allows the agencies to then come to the Appropriations Committee and ask for more General Fund monies. He stated that this is an alternative. He commented that another alternative is to identify what the building renewal formula dollar amount is and take that amount right off the top of the appropriations before any agency budgets are approved.

Mr. Hibbs stated the second alternative puts buildings in a position of ranking ahead of children, and a variety of other needs that exist within the State. He opined that that is where the difficulty arises. He noted that there are many other demands for the money that will get a lot more attention. He stated that the Administration would not want to be in a position of taking money out for buildings first, before any other issues, i.e.: education, health, mental health, prisons and others are addressed.

Mr. Smith stated that he agreed with what Mr. Hibbs had stated. He asked staff to refine the spreadsheet to be more user friendly and readable. He opined that charging the building renewal formula to the agencies is a sensible approach to take.

Mr. Miller remarked that the first alternative idea makes sense for the ADOA building system. He noted the University system is a little bit different in that it is 100 percent dependent on General Fund monies. He commented that the suggestion to make sure that the building renewal formula is addressed first, makes a lot of sense for the Universities because it does not have the COSF rent incorporated with its system. He noted that a plan for the Universities would need to be formulated.

Mr. Hibbs commented that he has witnessed various years when rents were not appropriated to the agencies in more difficult times. He stated that even building rents into a formula and into the budgets, does not mean that building renewal will always be funded. He stated, as with all budget cuts, historically one of the first items that has been taken out of the budgets was the rent, which meant the COSF fund was drained substantially, and consequently, building renewal monies were not available. He reiterated that taking this item out first is not a good idea because it does not allow discussion regarding all the other needs that exist for any given year. He stated that this issue needs to stand together with all of the other needs of the State.

Mr. Miller agreed that there has always been a last minute effort spent on the building renewal process, which has made it difficult to have ongoing scheduled maintenance on the buildings. This causes costs to go up significantly when issues are dealt with on an emergency basis. He stated that although he understands Mr. Hibbs concern, the Universities' deferred maintenance problem is becoming extremely critical. He stated that building some form of certainty into the formula to help stop the current situation and allow a more efficient approach to the Universities' maintenance issues would be helpful.

In addition, Mr. Miller stated that part of the Committee's charge, aside from looking at the formula, is to decide how to fund the formula and create more certainty into the process. He opined an important part of this mission is reviewing the process. He commented that if building renewal were dealt with, as it has been in the last decade, it would continue to create havoc within the Universities' system.

Mr. Hibbs concurred with Mr. Miller that the Universities do not have the formula in place, like ADOA has, to collect rent for its approach. He stated that the Committee does need to develop a process that provides a greater certainty for the Universities. He noted that he would not favor making this issue the first item to be addressed before other issues, nor would Administration. He stated that a better way needs to be developed.

Senator Smith commented that it is the responsibility of ADOA and the Legislature to avoid becoming "penny wise and pound foolish". He asked staff to meet with Mr. Martinez and write up a proposal to be voted upon at the next meeting.



In response to Mr. Hibbs, Mr. Martinez explained that for FY 2002, the building renewal needs for the Universities is approximately \$42.3 million.

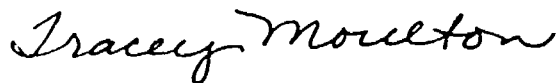
Senator Smith asked staff to include the University figures within the proposal.

In response to Mr. Harris, Senator Smith stated one of the reasons that building renewal always comes up last is because it has no advocacy group, and noted it is difficult to think of building renewal issues when other more dramatic issues are in need as well.

Senator Smith remarked that this proposal, if approved by the Committee, would be the first in many steps taken to address this issue.

There being no further business, the meeting adjourned at 3:55 p.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tracey Moulton".

Tracey Moulton  
Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 113.)

Res

ARIZONA STATE LEGISLATURE  
Forty-fourth Legislature – Second Regular Session

JOINT LEGISLATIVE STUDY COMMITTEE ON THE  
STATE BUILDING RENEWAL FORMULA AND PROCESS

Minutes of Meeting  
Monday, December 18, 2000  
House Hearing Room 3 – 11:00 a.m.

(Tape 1, Side A)

The meeting was called to order at 11:07 a.m. by Chairman Knaperek and attendance was noted by the secretary.

Members Present

Bob Harris  
Dave Harris  
J. Elliott Hibbs  
Senator Smith, Cochairman

David Janofsky  
Representative Johnson  
Steve Miller  
Representative Knaperek, Cochairman

Members Absent

Stuart Goodman  
Senator Huppenthal  
Senator Jackson

Donald Keuth, Jr.  
Representative McLendon  
Robert Teel

Speakers Present

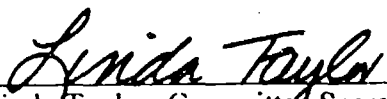
Tami Stowe, Majority Research Analyst, Government Operations Committee

Committee Discussion/Recommendations

Tami Stowe, Majority Research Analyst, Government Operations Committee, reviewed the proposed recommendations and noted that the attached summary is a more reader-friendly copy of information provided at the last meeting by Lorenzo Martinez, Joint Legislative Budget Committee (JLBC) (Attachment 1).

Mr. Smith moved that the Committee recommend that the Legislature prioritize full funding of the building renewal formula during the budget process and that the Legislature use correction fund monies to fund prison building renewal to the extent those monies are available. He added that after reviewing the building renewal formula presently in statute, it is adequate. The problem is that the formula is not funded appropriately. The motion carried.

Without objection, the meeting adjourned at 11:12 a.m.

  
Linda Taylor, Committee Secretary

(Original minutes, attachment, and tape are on file in the Office of the Chief Clerk. A copy of the minutes and attachment are filed with the Senate Secretary.)

**ATTACHMENT A**

## Building Renewal Formula

- Joint Committee on Capital Review approved formula in 1986
- Formula is a modified version of the Sherman-Dergis Formula (University of Michigan)
- Formula considers
  - Building Age (adjusted for major renovations)
  - Building Replacement Value
  - Expected Life of Building
- Formula does not consider deferred maintenance resulting from less than 100% funding in prior year(s)

$$(\text{Replacement Value} \times .667) \times (\text{Age}/1275)$$

# TEN YEAR BUILDING RENEWAL FUNDING HISTORY

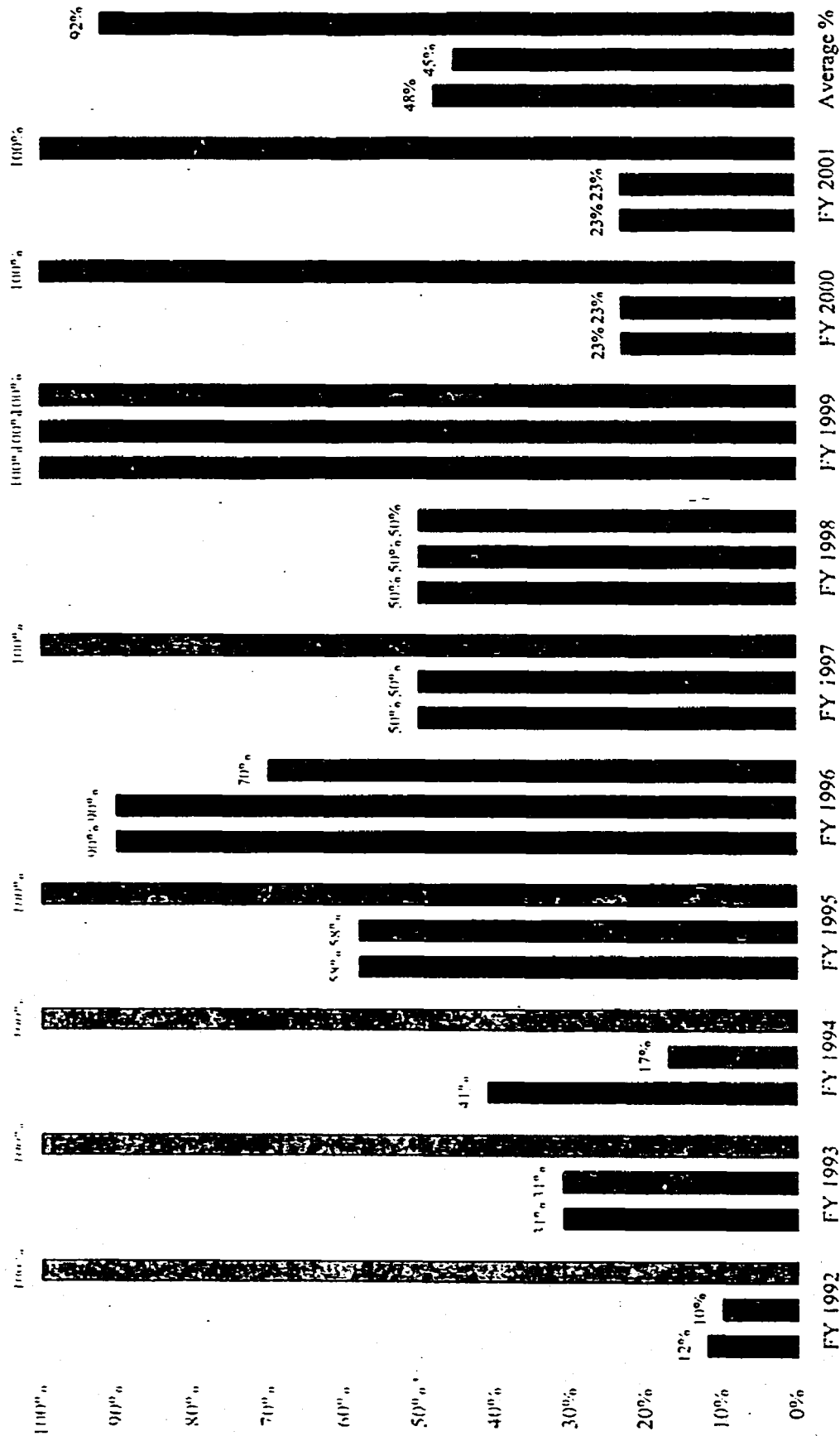
	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	Average %	Total \$
AIXYA Building System												15m
Appropriation (Millions)	\$0.8	\$2.2	\$3.1	\$5.1	\$8.2	\$4.9	\$6.2	\$13.6	\$3.4	\$3.7	\$51.2	
% of Building Renewal Formula Funding	12%	31%	41%	58%	90%	50%	50%	100%	23%	23%	48%	

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	Average %	Total \$
ABOR Building System												
Appropriation (Millions)	\$16	\$55	\$31	\$124	\$192	\$115	\$148	\$320	\$81	\$8.8		\$117.0
% of Building Renewal Formula Funding	10%	31%	17%	58%	90%	50%	50%	100%	23%	23%	45%	

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	Average %	Total \$
AJXT Building System												
Appropriation (Millions)	\$10	\$10	\$10	\$11	\$12	\$21	\$0.7	\$2.1	\$2.3	\$2.5	\$15.0	
% of Building Renewal Formula Funding	100%	100%	100%	100%	70%	100%	50%	100%	100%	100%	92%	

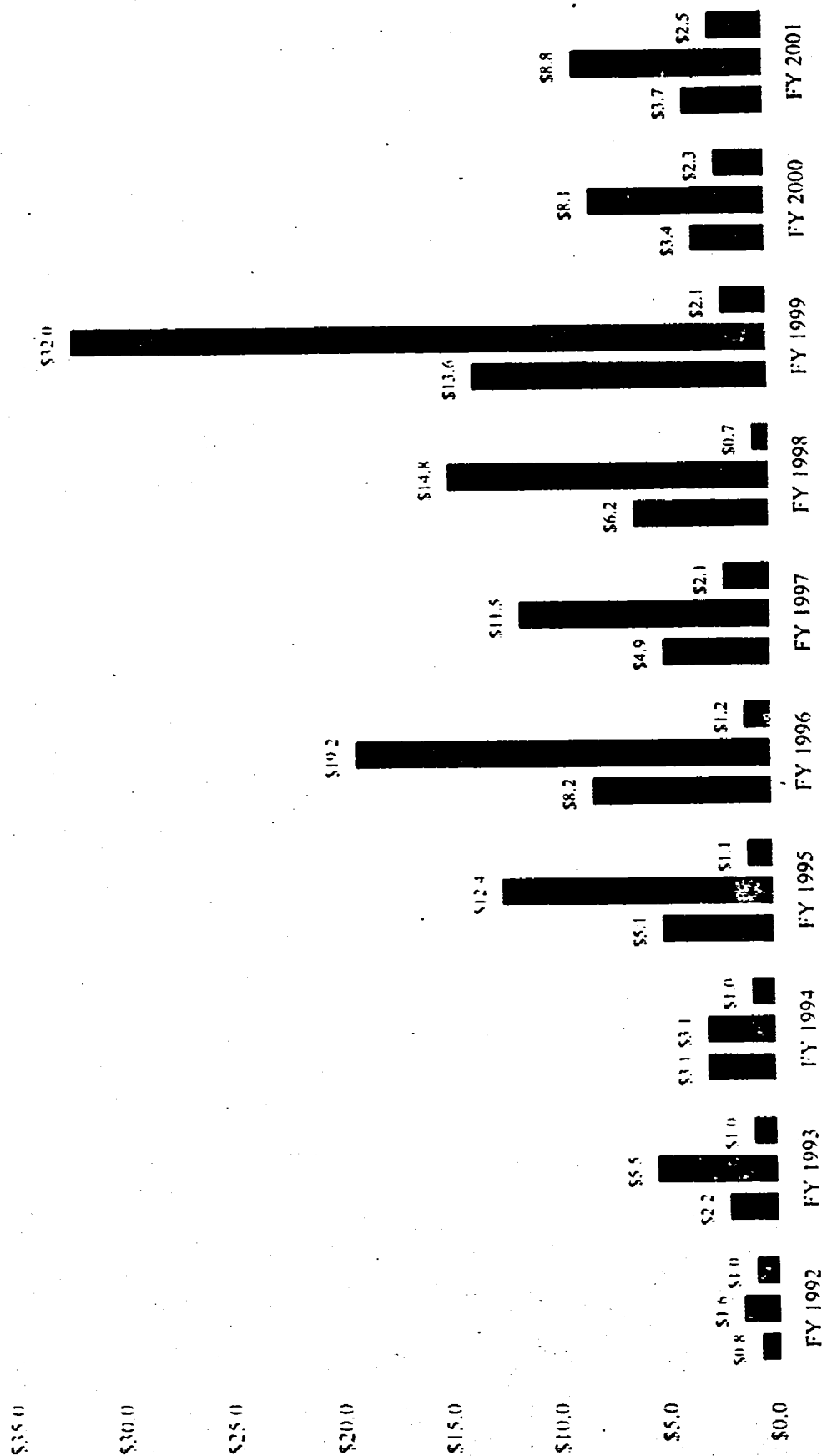
# % of Building Renewal Formula Funding

■ ADOA ■ ABOR ■ ADO1



# Building Renewal Appropriations (Millions)

■ ADOA ■ ABOR ■ ADOT





**ATTACHMENT B**



# Arizona Department of Administration

## **Information Packet for the**

Joint Legislative Study Committee on the  
State Building Renewal Formula and Process

Tuesday, October 17, 2000

1:30 PM

## **Building Renewal Formula**

1. ADOA believes that the existing building renewal formula constitutes a practical and valid approach for calculating building renewal funding needs.
2. It can be seen from the red bars on chart #1 that appropriations have not kept pace with the formula amounts resulting in \$78 million in deferred maintenance since 1989.
3. Based on the data, it is ADOA's belief that the challenge is finding a way to fully fund building renewal according to the formula generated amount.
4. Chart #2 shows that as a result of under-funding of the formula, the majority of the building renewal funds are consumed repairing failures in mission critical systems, such as:
  - Fire and life safety systems
  - Leaking roofs
  - and failed Heating and Air Conditioning and plumbing systems

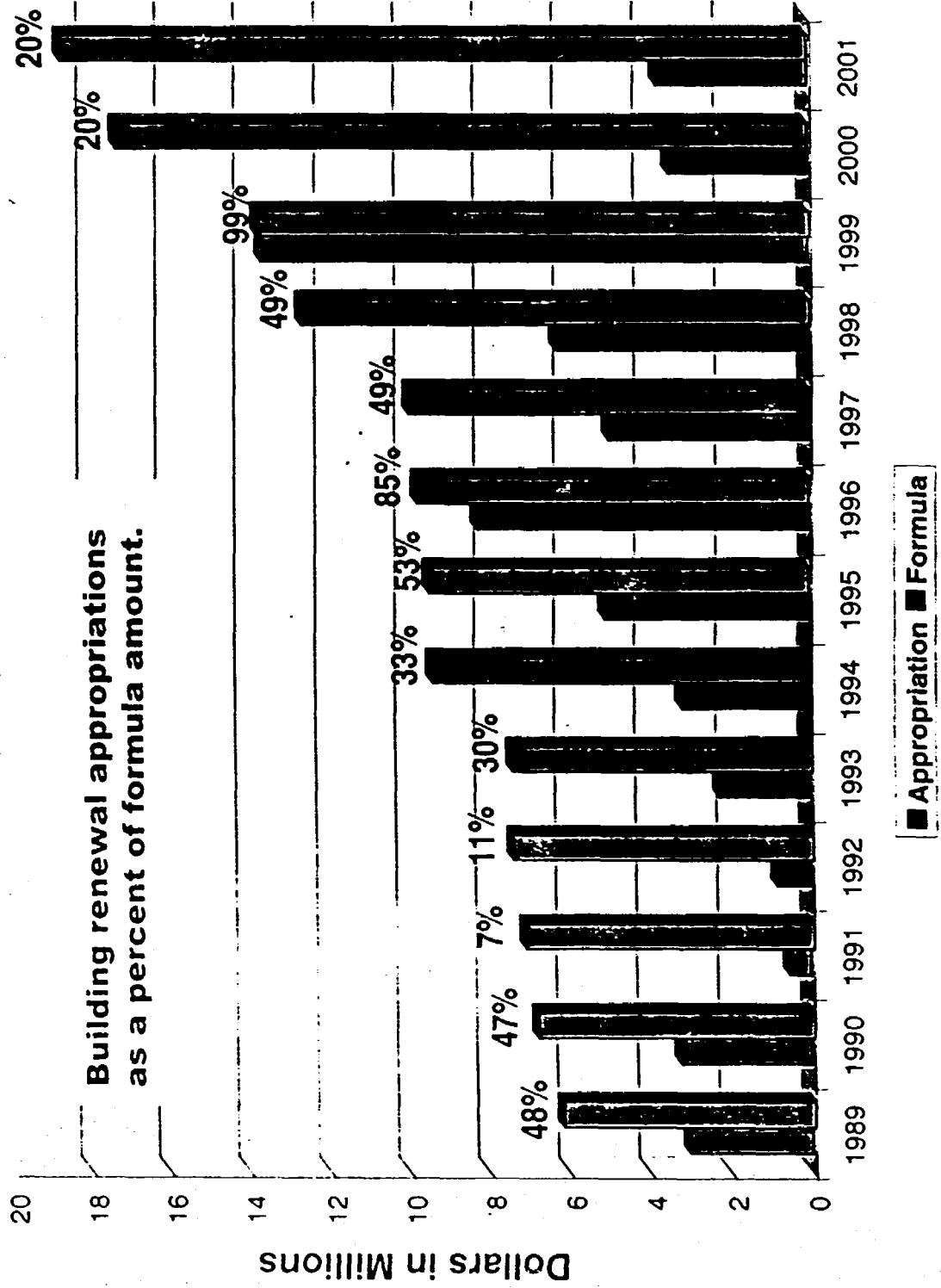
That leaves insufficient funds for performing maintenance that will achieve the useful life of the building systems.

5. Referring to chart #3, it can be seen that major funding for building renewal comes from rents charged on 30 ADOA buildings and the general fund. Since 1989, COSF has only 26% of the building renewal funds.
6. In summary, ADOA believes the formula provides a valid prediction of Building Renewal funding needs, and recommends that the committee investigate the means to fully fund building renewal according to the formula. We stand ready to assist the committee in its investigation of this important issue.

Thank you.

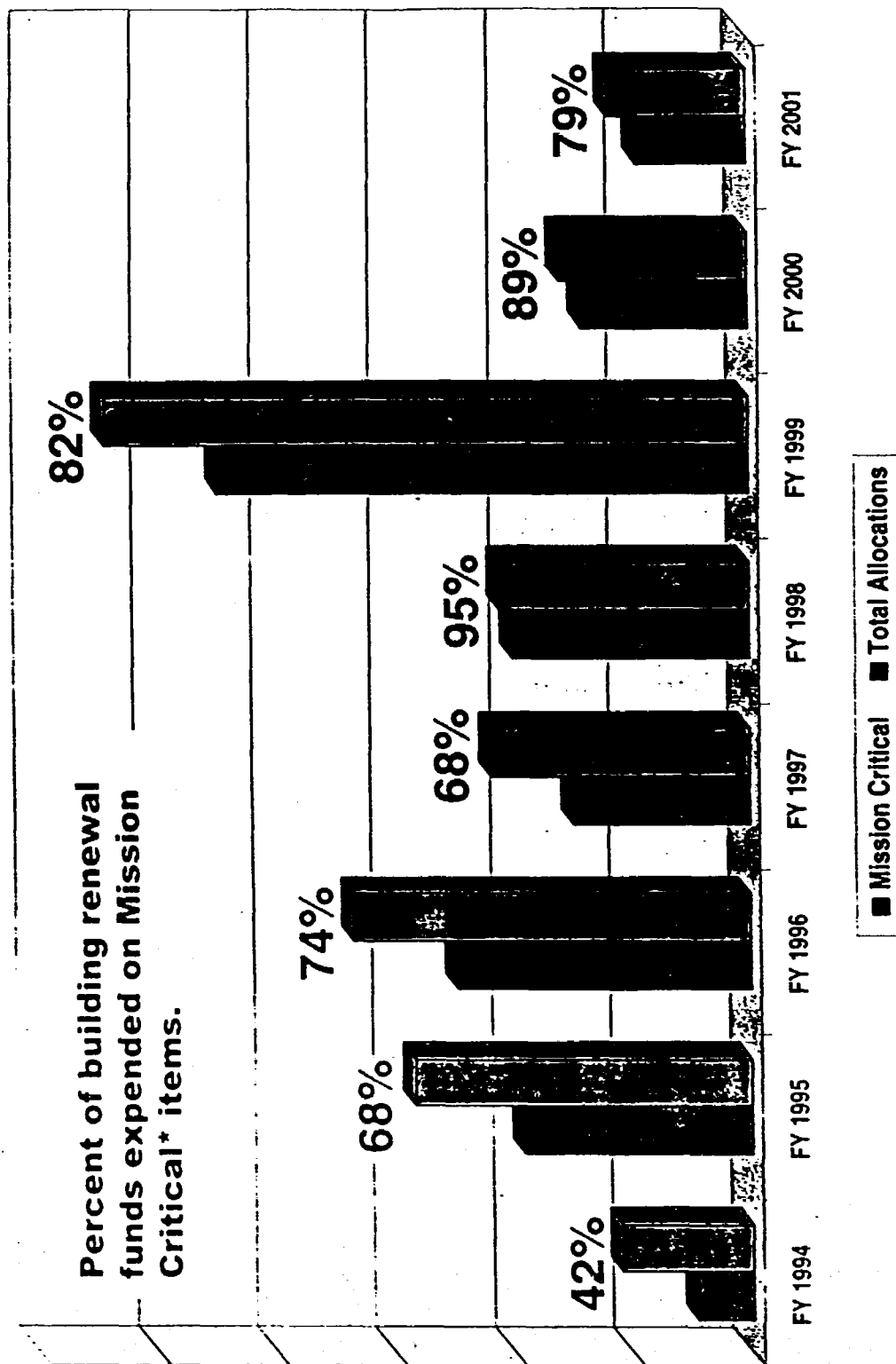
# Chart 1

Appropriations have not kept pace with the formula amounts resulting in \$78 million in deferred maintenance since 1989.



# Chart 2

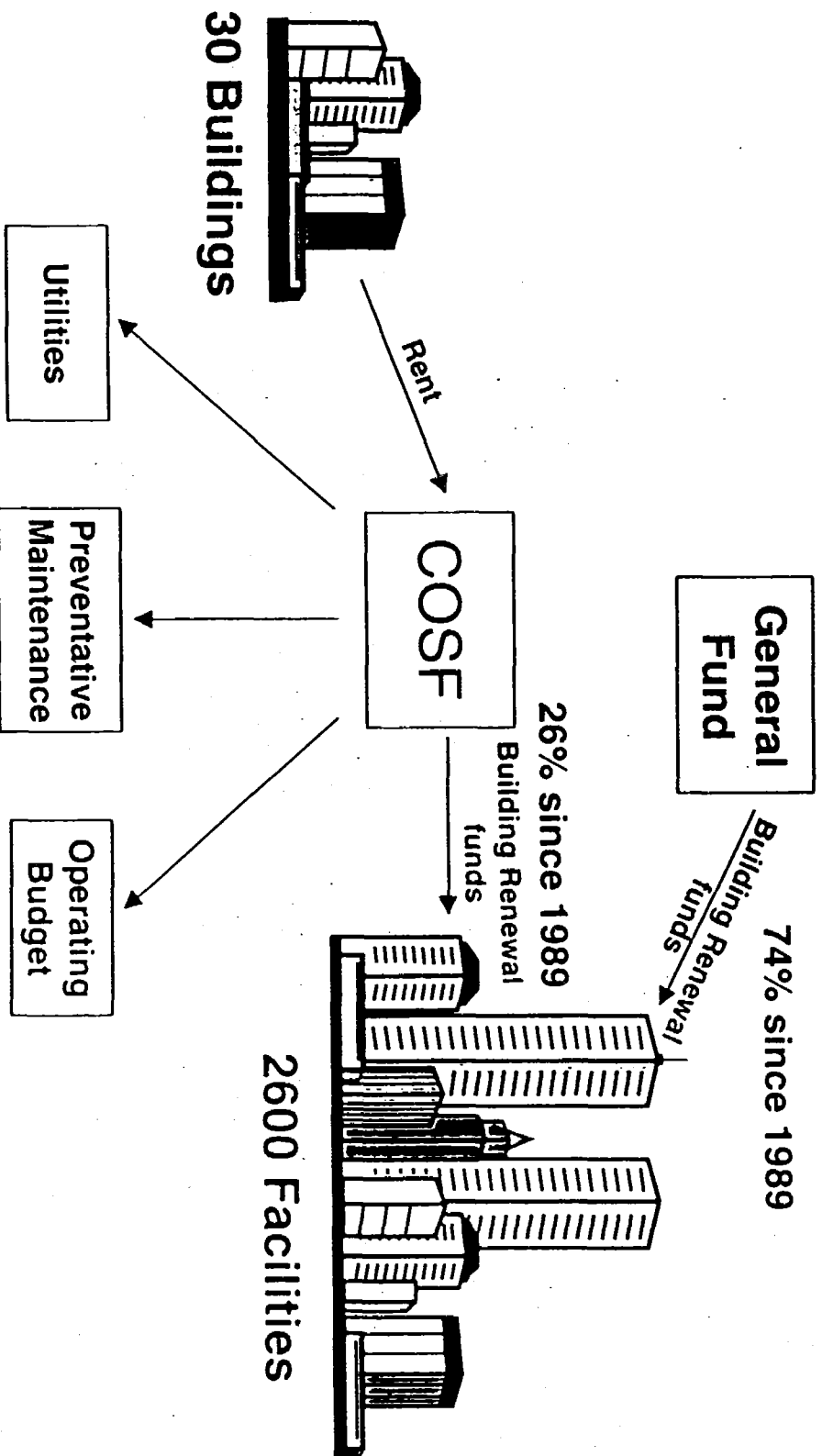
Mission Critical repairs consume the majority of the building renewal allocation leaving insufficient funds to realize the useful life of building systems.



\*Mission Critical = Fire & Life Safety, Asset Preservation, and major repairs/replacement.

## Chart 3

The COSF, as it exists, is not sufficient to adequately fund Building Renewal.



# Capital Outlay Stabilization Fund

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Cash Balance Beginning of Fiscal Year	\$ 4,874,400	3,147,200	1,697,100
<u>Revenue:</u>			
Rent Collections	<u>10,486,100</u>	<u>11,007,600</u>	<u>11,013,200</u>
Total Funds Available	<u>15,360,500</u>	<u>14,154,800</u>	<u>12,710,300</u>
<u>Expenditures:</u>			
Utilities	6,044,900	6,000,000	6,000,000
Building Renewal/Capital	3,500,000	0	3,500,000
Sexually Violent Persons Facility/Capital	0	3,080,400	0
Executive Tower Renovation/Capital	0	500,000	0
ADOA Operating Budget	1,865,700	2,376,300	2,007,600
Preventive Maintenance	0	501,000	504,900
Non-Lapsing Prior Year Appropriations	<u>802,700</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>12,213,300</u>	<u>12,457,700</u>	<u>12,012,500</u>
Cash Balance End of Fiscal Year	3,147,200	1,697,100	697,800

C:\FS07COST\CHJ 10/10/00

**ATTACHMENT C**





## ARIZONA BOARD OF REGENTS

2020 NORTH CENTRAL, SUITE 230  
PHOENIX, ARIZONA 85004-4593  
(602) 229-2500  
FAX (602) 229-2555

### ARIZONA UNIVERSITY SYSTEM BUILDING RENEWAL HIGHLIGHTS

- ▶ The Building Renewal Formula for the State universities has been funded at an average rate of 44% over the last 10 years with a low of 10% and a high of 100%. For this biennium the amount is 23%.
- ▶ The shortfall has amounted to \$122 million.
- ▶ During the same time period, deferred maintenance has risen from \$121.7 million to \$219.3 million at the universities.
- ▶ The universities are in need of a RELIABLE source of building renewal funding to stem this growth in deferred maintenance. As the above figures indicate, if the Formula had been funded at 100% there would have been adequate monies to control the growth of deferred maintenance.
- ▶ In addition, it would be most advantageous to the universities to also identify a source of funds to make up for this backlog.

**ATTACHMENT D**

## **Building Renewal Formula/Process Proposed Recommendations**

- Establish Legislative bypass, similar to Students' First (ADOT and Universities)
  - OSPB and JLBC could certify formula funding and Treasurer required to deposit
- In long term, comprehensively assess adequacy of the formula (ADOT)
- Statutorily restrict COSF to current building related programs (ADOA)
- Assess small annual fee on all structures eligible for building renewal monies, including COP buildings. This is similar to risk management funding (ADOA)
- Approve rental rate increases for FY 02 and FY 03 as recommended by Lease Cost Review Bd (ADOA)
- Establish a two-tiered funding system for (1) emergency and repairs and (2) preventative maintenance. These are two separate missions, and should be funded separately – unlike is currently the case by default. Build flexibility into the system for reallocation of resources as necessary. (Goodman)
- Create a dedicated revenue source to allow for more fully funding of the formula. As a way to make this more politically palatable, build in a trigger to stop the dedication of funds should fiscal conditions warrant the discontinuation. (Similar to Universities and ADOT's Students' First Option – Goodman)
- Establish a minimum amount of funding within the statutory formula (e.g 75%), below which the Legislature may not go. This creates an "entitlement" for the building systems, and as such may also create political obstacles. Also, this may be difficult to enforce. (Goodman)

JANE DEE HULL  
GOVERNOR

J. ELLIOTT HIBBS  
DIRECTOR

**ARIZONA DEPARTMENT OF ADMINISTRATION**  
GENERAL SERVICES DIVISION • 15 S. 15th Ave., Suite 101  
PHOENIX, ARIZONA 85007  
(602) 542-1920

October 25, 2000

Joint Legislative Study Committee on Building Renewal Formula and Process

**SUBJECT: ADOA BUILDING RENEWAL RECOMMENDATIONS**

Dear Committee Member:

In response to a request by the Joint Legislative Study Committee on Building Renewal Formula and Process, the Arizona Department of Administration makes the following recommendations for methods that will help ensure that Building Renewal is fully funded according to the formula amount.

**Issue:**

1. COSF (Capital Outlay and Stabilization Fund) and the General Fund provide funding for the Building Renewal Program. COSF has on the average provided only 26% of the appropriation with the balance provided from the General Fund. This has resulted in a shortfall in building renewal funding of over \$78 million since 1989.

Currently, there are approximately 2600 Capital Improvement facilities in the ADOA Building System. All 2600 are eligible for building renewal projects, however, only 30 buildings in the Capitol Mall are charged rent which is deposited into the COSF for use in funding building renewal. Over \$6 million is paid out of COSF funds annually for utility costs that are not accounted for in the formula generated amounts.

**Recommendations:**

1. By statute, restrict the use of COSF funding for the current building related programs, i.e. the Building Renewal Program, ADOA GSD Building and Planning Operating Budget and the Preventative Maintenance Program
2. Assess a small annual fee on all structures eligible for building renewal funding that are not currently contributing to the building renewal fund. The fee on these structures could be assessed based on the replacement value of the structures in the same manner that the building renewal formula is used.

The fee should also be charged to tenants of the COP buildings. They too utilize building renewal services but do not contribute to the COSF fund (COP building rent is used to pay the COP debt service). Require these fees to be deposited into the COSF fund and their use restricted as indicated in item 1 above. This approach would allow the use of multiple funding sources and ease the reliance to some extent on the General Fund.

Conceptually, this program would be similar to the Risk Management Fund, where agencies are assessed a fee at the beginning of the year and proceeds deposited into the Risk Management fund to be used where needed irrespective of the source.

3. Approve rental rates increases for FY02, FY03 and subsequent years as recommended by the Lease Cost Review Board. This increase would help generate additional funds for COSF, about 30% of which comes from other than General Fund sources.

In summary, a COSF fee should be assessed on all buildings in the ADOA system based on a comprehensive analysis of the cost of maintaining these facilities.

Note: Special consideration needs to be given to determining the best method of recovering allowable costs from organizations receiving federal funds (i.e. the fees are assessed in a fair and equitable manner.)

The ADOA staff is available to answer any questions or provide any additional information necessary to assist in your evaluation of this proposal.

Respectfully,



Robert C. Teel  
Assistant Director, ADOA General Services Division

RCT/cf

Enclosure

cc: Senator Tom Smith  
Senator John Huppenthal  
Senator Jack Jackson

Stuart Goodman  
Bob Harris  
David Jankofsky  
Robert Teel

Representative Laura Knaperek  
Representative Karen Johnson  
Representative Robert McLendon

Donald Keuth, Jr.  
J. Elliott Hibbs  
Steve Miller  
Dave Harris

# STATE BUILDINGS ON THE CAPITOL MALL THAT DO NOT PAY RENT TO THE COSF FUND

Buildings that pay no rent	Gross Square Feet	Usable Square Feet
State Capitol Building 1898	49,760	0.85
State Capitol Building 1919	18,600	42,296
Justice Building	53,600	15,810
House Building	80,160	45,560
Senate Building	80,160	68,136
Records Retention Center (partial COP building)	51,778	68,136
JLBC	11,183	44,011
Carnegie Library	9,925	9,506
<b>Totals</b>	<b>355,165</b>	<b>8,436</b>
<b>COP Buildings (these buildings only pay COP debt service)</b>		<b>301,892</b>
Library for the Blind - 32nd St.	20,663	17,564
2543 E. University	24,320	20,672
701 E. Jefferson	77,104	65,538
801 E. Jefferson	77,241	65,655
2422 W. Holly	22,367	19,012
15 S. 15th Ave	123,267	104,777
1647 E. Morten	39,450	33,533
1651 E. Morten	20,711	17,604
417 W. Roosevelt	4,200	3,570
1789 W. Washington	151,906	129,120
11101 W. Peoria	4,112	3,495
9500 Doublerree Road	28,314	24,067
Kingman State Office Building	14,682	12,480
3815 N. Black Canyon	23,333	19,833
1600 W. Monroe	137,920	117,232
1616 W. Adams	64,463	54,794
2910 N. 44th Street	77,802	66,132
400 W. Congress - Tucson	109,138	92,767
Supreme Courts Building	257,207	218,626
	<b>1,278,200</b>	<b>1,086,470</b>

Note: There are approximately 2600 other buildings that utilize building renewal funds, but do not contribute to the fund.



Jane Dee Hull  
Governor

Mary E. Peters  
Director

# Arizona Department of Transportation

Transportation Services Group  
206 S. 17<sup>th</sup> Ave. Phoenix, Arizona 85007-3213  
Phone 602.712.7228 FAX 602.712.6941

John A. Bogert  
Chief of Staff

October 27, 2000

Joint Legislative Study Committee on  
State Building Renewal Formula and Process  
C/o Ms Deborah Johnston  
Arizona State Senate  
1700 West Washington  
Phoenix, Arizona 85007

Dear Committee Members:

The Arizona Department of Transportation appreciates the opportunity to be a part of the evaluation of the current building renewal formula and process.

Pursuant to the request of the Cochairs at the October 17 meeting, ADOT respectfully submits the following comments for consideration. Our comments are divided into short and longer-term categories.

## Short Term

Appropriate the funds that result from the application of the current building renewal formula. As was noted at the previous meeting, competing needs for funds often result in the amounts appropriated being less than the amount resulting from application of the formula.

We realize it is difficult to accomplish this in the context of a legislative session in which compromises and balances need to be struck to produce an appropriations bill. In that light, the Committee may wish to consider recommending legislation that would "automatically appropriate" the amount resulting from the formula without further action of the legislature. Mechanically, perhaps upon certification of the formula-driven amount by, for example, the Directors of the Governor's Office of Strategic Planning and Budgeting and the Joint Legislative Budget Committee Staff, the State Treasurer could be directed to place monies from the appropriate funds into the accounts of the three building system "owners."

Establishing a consistent, (and predictable), funding mechanism will allow for the effective evaluation and prioritization of renewal projects.

## Long Term

Conduct a comprehensive survey of both the public and private sectors in order to review Arizona's building renewal processes in a local, regional and national context.

Even if the current formula is fully funded, it may not be adequate (or could theoretically be over-generous) for Arizona's building renewal needs. This survey should be as market-driven

as possible in the sense that the true cost of building renewal (maintenance) is that amount upon which willing buyers and sellers agree.

Such a comprehensive evaluation will also allow for a determination of the extent to which location and types of building structures can impact these costs. The current renewal formula funds all buildings at the same rate even though some may be highly concentrated in an urban core while others are spread throughout the state, including some extremely remote areas. The ability to find contractors willing to bid a job, especially outside the Phoenix Metro area, is intuitively higher. Developing a funding methodology that recognizes the uniqueness of each building system seems preferable to a "one size fits all" approach.

Thank you again for the opportunity to offer suggestions. ADOT stands willing to be a full and active participant on the Committee as it moves forward in evaluating this very important matter.

Sincerely,

THE ARIZONA DEPARTMENT OF TRANSPORTATION

David Jankofsky, Manager  
Office of Strategic Planning and Budgeting

Robert Harris, Manager  
General Operations

C: John Bogert, Chief-of-Staff



## ARIZONA UNIVERSITY SYSTEM BUILDING RENEWAL HIGHLIGHTS

- The Building Renewal Formula for the State universities has been funded at an average rate of 44% over the last 10 years with a low of 10% and a high of 100%. For this biennium the amount is 23%.
- The shortfall has amounted to \$122 million.
- During the same time period, deferred maintenance needs have risen from \$121.7 million to \$219.3 million at the universities.
- The replacement value of all of the buildings in the university system is \$4.1 billion, \$3.2 billion of this amount is the replacement value of the buildings that are eligible for Building Renewal funding.
- The universities paid \$19.2 million in FY 1999 - FY 2000 in State Transaction Privilege Taxes.
- The universities are in need of a RELIABLE source of building renewal funding to stem this growth in deferred maintenance. As the above figures indicate, if the Formula had been funded at 100% there would have been adequate monies to control the growth of deferred maintenance.
- In addition, it would be most advantageous to the universities to also identify a source of funds to make up for this backlog.

### POSSIBLE FUNDING OPTION

- The Legislature recognized the importance of a reliable funding source for building renewal through its Students First legislation. The university system believes that this approach is an effective method of maintaining a reliable funding source. One option\* that the Joint Legislative Study Committee on the State Building Renewal Formula and Process might consider is that the universities be granted 100% of their annual Building Renewal Funds, determined by the existing formula, through a direct transfer of Transaction Privilege Tax revenues. This would be an extension of the system presently in place for Building Renewal Funding for the State Schools Facilities Board which was put in place by the Legislature in 1999.

*\* Since the committee asked for ideas on the 17<sup>th</sup> of October to be submitted on October 27, we have not had the opportunity to review this option with the Board of Regents.*

**ATTACHMENT E**

## MECHANISMS FOR ASSET PRESERVATION IN OTHER STATES

State	Earmarked Funds/ Automatic Appropriation	Competes in Budget Process	Comments
1 Alabama	X		Earmarked funds.
2 California	X		Agency rents include operation and maintenance component.
3 Colorado	X		Statutory transfer from General Fund and other Trust Fund.
4 Illinois	X		Amount set aside at beginning of budget development.
5 Iowa	X		Gaming receipt revenues over a set amount and interest from cash reserves.
6 Kentucky	X		Investment income from certain funds in state accounting system.
7 Massachusetts	X		Implementing to set aside percentage of certain operating accounts.
8 Missouri	X		Set aside of 1% of previous year's net General Fund revenue collections.
9 Nebraska	X		Cigarette funds.
10 North Carolina	X		3% of building replacement cost reserved from credit balance.
11 Oregon	X		Continued as part of base operating budget.
12 Rhode Island	X		Share of reserve funds.
13 South Dakota	X		Small amount in base funding.
14 Tennessee	X		Part of rent.
15 Utah	X		Statutory requirement to fund 0.9% of replacement cost.
16 Washington	X		Portion of rent.
17 Montana	?		
18 Arizona		X	Building renewal formula competes for funding.
19 Arkansas		X	Specific requests in budget process.
20 Connecticut		X	
21 Georgia		X	
22 Hawaii		X	Included in operating budgets.
23 Idaho		X	
24 Indiana		X	
25 Kansas		X	
26 Louisiana		X	
27 Maine		X	
28 Michigan		X	Lump sum appropriations to central agency.
29 Minnesota		X	
30 Mississippi		X	
31 Nevada		X	
32 New Hampshire		X	
33 New Jersey		X	
34 New Mexico		X	Building use fees (rent) requires appropriation. Currently not funded.
35 New York		X	
36 North Dakota		X	
37 Ohio		X	
38 Oklahoma		X	As part of operating budget.
39 Pennsylvania		X	
40 South Carolina		X	
41 Vermont		X	
42 Virginia		X	
43 West Virginia		X	
44 Wyoming		X	
45 Alaska		?	Implementing rental structure.
46 Delaware		?	Annual appropriation of \$23.6 million.
47 Florida		?	Capital program contains maintenance planning and budgeting.
48 Maryland		?	Capital budget includes fund for capital renewal.
49 Wisconsin		?	
50 Texas			No response.

**ATTACHMENT F**

11/16

## **Joint Legislative Study Committee on the State Building Renewal Formula and Process**

### **POSSIBLE FINDINGS AND RECOMMENDATIONS**

#### **Committee Findings**

1. Over the last decade, the ADOA building system has been funded at an average of 48% of the formula, the ABOR (Board of Regents) system at an average of 45% of the formula, and the ADOT system at an average of 92% of the formula.
2. General fund supported building renewal, has been funded at less than 100 per cent of the formula in all but one year during this time period. State highway fund supported building renewal has been funded at less than 100 percent of the formula three times since FY 1992.
3. Less than 100% funding of the formula has contributed to deferred maintenance costs of approximately \$78 million for the DOA system and \$219.3 million for the university system.
4. The State should adequately fund building renewal in order to avoid the long-term costs of deferred maintenance.

#### **Recommendations**

##### **Option 1. Funding Prioritization**

**MOVE TO:** Establish a funding mechanism similar to Students' First for building renewal monies. The mechanism would have the following components:

- a) JCCR would determine any inflation factor used to calculate replacement values in the formula.
- b) The building systems would incorporate their building renewal funding requests into their capital improvement plans, which are submitted as part of their budget requests in even numbered years.
- c) JCCR would review the building renewal formula requests by December 1 in each even numbered year for the following two fiscal years.
- d) By January 1 of each odd-numbered year, the directors of the building systems would instruct the State Treasurer of the amount of general fund monies (TPT?) or state

highway fund monies necessary to fund the building renewal formula as previously reviewed by JCCR.

- e) July 1 of each year, the State Treasurer would deposit these amounts into special building renewal funds administered by the director of each building system.

Option 2. Incorporating New Rents and Assessments into the Formula

MOVE TO: Extend the study committee, and charge it with specifically studying the feasibility of requiring all facilities to pay into COSF. Specifically, the committee would examine different assessment and rent structures and analyze the general fund impact of these structures and whether, and to what extent, this impact could be absorbed by the impacted agencies. Additionally, the committee could examine the adequacy of the building renewal formula itself.

**ATTACHMENT G**

# ADOA RECOMMENDATION - BUILDING RENEWAL ASSESSMENT FEE

## SUMMARY

Agency	Replacement Cost	ADOA Recommended Rate (1%)			Total
		General Fund	Other Approp Funds	Non-Approp Funds	
<b>BUILDING RENEWAL ASSESSMENT FEE:</b>					
TOTAL - Non Rent Agencies	1,482,649,922	13,130,765	492,781	254,611	13,878,157
TOTAL - COP Agencies	236,007,053	1,683,122	441,876	235,073	2,360,071
<b>TOTAL BUILDING RENEWAL ASSESSMENT FEE</b>	<b>1,718,656,975</b>	<b>14,813,887</b>	<b>934,657</b>	<b>489,684</b>	<b>16,238,228</b>
<b>Projected Rent Collections (to COSF)</b>					
TOTAL COSF COLLECTIONS		7,724,700	2,224,700	1,068,200	11,017,600
Projected ADOA COSF Operating Budget		22,538,587	3,159,357	1,557,884	27,255,828
<b>TOTAL COSF AVAILABLE FOR BUILDING RENEWAL</b>					<b>8,521,700</b>
					<b>18,734,128</b>

FY2002 BUILDING RENEWAL FORMULA CALCULATION

18,208,672\*

## NON-RENT AGENCIES

Based on Rent/Salary Adjustment Ratios

Agency	Replacement Cost	ADOA Recommended Rate (1%)			Total
		General Fund	Other Approp Funds	Non-Approp Funds	
State Capitol Building 1898	6,817,385	68,174			68,174
State Capitol Building 1919	2,531,414	25,314			25,314
Justice Building	3,894,887	38,949			38,949
House Building	13,259,547	132,595			132,595
Senate Building	13,259,547	132,595			132,595
Records Retention Center, Phase I	4,292,432	42,924			42,924
JLBC	1,297,636	12,976			12,976
Carnegie Library	1,961,633	19,616			19,616
Department of Agriculture	1,460,727	14,607			14,607
Az Historical Society	29,111,730	291,117			291,117
Department of Corrections	751,671,487	7,516,715			7,516,715
Department of Economic Security	82,132,650	435,303	131,412	254,611	821,327
Department of Emergency & Military Affairs	122,021,597	1,220,216			1,220,216
Department of Environmental Quality	2,526,530	11,875	13,391	?	25,265
Game & Fish Department	28,526,400				
Department of Health Services	84,700,874	770,778	76,231	?	847,009
Department of Juvenile Corrections	61,392,662	613,927			613,927
Land Department	1,231,127	12,188	123		12,311
Lottery	4,733,448				
Parks Board	52,732,662	400,768	126,558		527,327
Pioneer's Home	6,953,264	69,533			69,533
Power Authority	657,201	6,572			6,572
Prescott Historical Society	6,325,979	63,260			63,260
Department of Public Safety	65,550,614	655,506			655,506
School for the Deaf & Blind	54,965,539	549,655			549,655
Veteran's Service Commission	17,066,621	25,600	145,066		170,666
Veteran's Memorial Coliseum & Expo Center	61,574,329				
<b>TOTAL - Non Rent Agencies</b>	<b>1,482,649,922</b>	<b>13,130,765</b>	<b>492,781</b>	<b>254,611</b>	<b>13,878,157</b>
<b>% of Total:</b>		<b>94.6%</b>	<b>3.6%</b>	<b>1.8%</b>	<b>100.0%</b>

\* These agencies excluded due to 100% of building renewal is currently funded from other funding sources - Game & Fish, Lottery, and Veteran's Memorial Coliseum



# **ADOA RECOMMENDATION - BUILDING RENEWAL ASSESSMENT FEE**

## **AGENCIES IN COP BUILDINGS**

Based on Lease-Purchase Payment Ratios

Agency	Replacement Cost	ADOA Recommended Rate (1%)			Total
		General Fund	Other Approp Funds	Non-Approp Funds	
Records Retention Center, Phase II	4,292,432	42,924			42,924
Library for the Blind	1,476,036	14,760			14,760
<b>SUPREME COURTS BUILDING</b>					
Supreme Court (80.6%)	30,872,341	308,723			308,723
Dept of Education (3.8%)	1,455,520	3,581		10,975	14,555
Library, Archives & Public Records (15.6%)	5,975,292	59,753			59,753
<b>TOURISM WELCOME CENTER</b>	519,377	5,194			5,194
ALEOAC - DPS	2,505,703			25,057	25,057
AHCCCS	18,079,046	180,790			180,790
Agriculture Laboratory	4,293,773	42,938			42,938
<b>CAPITAL CENTER</b>					
ADOA (19.8%)	4,466,641	25,013	19,653		44,666
Attorney General (80.2%)	18,092,154		180,922		180,922
<b>CENTRE POINTE West - DHS</b>	2,801,746	13,448	5,603	8,966	28,017
<b>CENTRE POINTE East</b>					
DHS (32.5%)	910,567	4,371	1,821	2,914	9,106
Nursing Board (39.7%)	1,112,293		11,123		11,123
Vacant (27.8%)	778,885	7,789			7,789
<b>CORPSTEIN BUILDING - Arts Commission</b>	742,749	7,427			7,427
<b>DES WEST</b>					
ADOA (1.8%)	600,379	6,004			6,004
DES (98.2%)	32,754,023	186,698	55,682	85,160	327,540
<b>SUN CITY - DPS</b>	419,038		4,190		4,190
<b>DOUBLETREE</b>					
Board of Medical Examiners (56.7%)	1,956,064		19,561		19,561
Osteopathic Examiners Board (7.9%)	272,538		2,725		2,725
Structural Pest Control Board (35.4%)	1,221,246		12,212		12,212
<b>KINGMAN STATE OFFICE BUILDING</b>					
AHCCCS (16.8%)	363,165	1,816		1,816	3,632
DES (77%)	1,664,506	13,150	1,831	1,665	16,645
Registrar of Contractors (3.8%)	82,144		821		821
Vacant (2.4%)	51,881	519			519
<b>RETIREMENT BUILDING - DHS</b>	3,924,070			39,241	39,241
<b>REVENUE BUILDING - Dept of Revenue</b>	25,501,245	249,912	5,100		255,012
<b>STATE OFFICE BUILDING</b>					
ADOA (39.6%)	4,562,516		45,625		45,625
DHS (1.6%)	184,344			1,843	1,843
Land Dept (58.8%)	6,774,645	67,746			67,746
<b>SUN STATE SAVINGS</b>					
ADOA (0.3%)	59,943	599			599
Auditor General (27.2%)	5,434,858	54,349			54,349
Banking (16.5%)	3,296,881	29,672		3,297	32,969
Insurance (36.4%)	7,273,119	53,821		18,910	72,731
Real Estate (19.6%)	3,916,295	39,163			39,163
<b>TUCSON OFFICE BUILDING</b>					
ADOA (7.7%)	2,873,609	20,115	8,621		28,736
Agriculture (1.5%)	559,794	4,534	1,064		5,598
Attorney General (1.5%)	559,794	5,598			5,598
Auditor General (2.3%)	858,351	8,584			8,584
Building & Fire Safety (1.9%)	709,072	7,091			7,091
Corporation Commission (3.1%)	1,156,908		11,569		11,569
Court of Appeals (22%)	8,210,311	82,103			82,103
DLS (25.1%)	10,486,807	61,872	18,876	24,120	104,868
Dept of Education (2.1%)	753,712	5,643		2,194	7,837
DEQ (5.2%)	1,940,619		19,406		19,406
Gaming Dept (0.2%)	74,619		746		746
Governor's Office (1.7%)	634,433	6,344			6,344
DHS (6.7%)	2,500,413	11,502	5,751	7,751	25,004
Insurance (1.2%)	447,835	3,314		1,164	4,478
Dept of Liquor Licenses (1.1%)	410,516	4,105			4,105
Real Estate (1.8%)	671,753	6,718			6,718
Registrar of Contractors (2%)	746,392		7,464		7,464
Structural Pest Control Board (0.2%)	74,639		746		746
Supreme Court (4.9%)	1,828,660	18,287			18,287
Veteran's Commission (0.6%)	223,918	1,478	761		2,239
Dept of Water Resources (4.2%)	1,567,423	15,674			15,674
<b>TOTAL - COP Agencies</b>	<b>236,007,053</b>	<b>1,683,122</b>	<b>441,876</b>	<b>235,073</b>	<b>2,360,071</b>
<b>% of Total</b>		<b>71.3%</b>	<b>18.7%</b>	<b>10.0%</b>	<b>100.0%</b>

**ATTACHMENT H**

# SUMMARY

based on 13.5/sq ft (rental cost) 11/10  
L. Long

Agency	Replacement Cost	ADOA Recommended Rate (.746%)				FY 2002 Building Renewal Formula Requirement			
		General Fund	Other Approp Funds	Non-Approp Funds	Total	General Fund	Other Approp Funds	Non-Approp Funds	Total
TOTAL Rent Paying Agencies	150,927,804	789,271	227,436	109,214	1,125,921	1,876,820	540,824	259,703	2,677,347
TOTAL - Non Rent Agencies	1,482,649,922	9,795,551	1,075,078	189,940	11,060,568	12,937,090	1,974,530	214,553	15,126,173
TOTAL - COP Agencies	236,007,053	1,255,609	329,639	175,364	1,760,613	1,297,518	406,620	190,368	1,894,506
TOTAL	1,869,584,779	11,840,431	1,632,153	474,519	13,947,102	16,111,428	2,921,974	664,624	19,698,026
FY 2001 Rent Collections (to COSF)		7,724,700	2,224,700	1,068,200	11,017,600	7,724,700	2,224,700	1,068,200	11,017,600
FY 2001 ADOA COSF Operating Budget Difference		70.1%	20.2%	9.7%	100.0%	70.1%	20.2%	9.7%	100.0%
					8,521,700				8,521,700
					2,495,900				2,495,900

## RENT PAYING AGENCIES

Based on Rent Ratios

Agency	Replacement Cost	ADOA Recommended Rate (.746%)				FY 2002 Building Renewal Formula Requirement			
		General Fund	Other Approp Funds	Non-Approp Funds	Total	General Fund	Other Approp Funds	Non-Approp Funds	Total
ADOA System (less entities listed below)	150,927,804	789,271	227,436	109,214	1,125,921	1,876,820	540,824	259,703	2,677,347
		70.1%	20.2%	9.7%	100.0%	70.1%	20.2%	9.7%	100.0%

## NON-RENT AGENCIES

Based on Rent/Salary Adjustment Ratios

Agency	Replacement Cost	ADOA Recommended Rate (.746%)				FY 2002 Building Renewal Formula Requirement			
		General Fund	Other Approp Funds	Non-Approp Funds	Total	General Fund	Other Approp Funds	Non-Approp Funds	Total
State Capitol Building 1898	6,817,385	50,858			50,858	178,671			178,671
State Capitol Building 1919	2,531,414	18,884			18,884	68,200			68,200
Justice Building	3,894,887	29,056			29,056	104,934			104,934
House Building	13,259,547	98,916			98,916	321,510			321,510
Senate Building	13,259,547	98,916			98,916	321,510			321,510
Records Retention Center, Phase I	4,292,432	32,022			32,022	25,442			25,442
JLBC	1,297,636	9,680			9,680	7,691			7,691
Carnegie Library	1,961,633	14,634			14,634	16,912			16,912
Department of Agriculture	1,460,727	10,897			10,897	21,350			21,350
Az Historical Society	29,111,730	217,174			217,174	418,001			418,001
Department of Corrections	751,671,487	5,607,469			5,607,469	5,518,816			5,518,816
Department of Economic Security	82,132,650	324,736	98,034	189,940	612,710	366,817	110,737	214,553	692,107
Department of Emergency & Military Affairs	122,021,597	910,281			910,281	1,355,303			1,355,303
Department of Environmental Quality	2,526,530	8,859	9,989	?	18,848	16,423	18,520	?	34,943
Game & Fish Department	28,526,400		212,807		212,807		307,589		307,589
Department of Health Services	84,700,874	575,000	56,868	?	631,869	1,476,769	146,054	?	1,622,823
Department of Juvenile Corrections	61,392,662	457,989			457,989	440,874			440,874
Land Department	1,231,127	9,092	92		9,184	12,148	123		12,271
Lottery	4,733,448		35,312		35,312		34,667		34,667
Parks Board	52,732,662	298,973	94,413		393,386	519,995	164,209		684,204
Pioneer's Home	6,953,204	51,871			51,871	180,592			180,592
Power Authority	657,201	4,903			4,903	16,159			16,159
Prescott Historical Society	6,325,979	47,192			47,192	118,423			118,423
Department of Public Safety	65,550,614	489,008			489,008	780,850			780,850
School for the Deaf & Blind	54,965,539	410,043			410,043	641,664			641,664
Veteran's Service Commission	17,000,821	19,098	108,219		127,317	8,035	45,534		53,569
Veteran's Memorial Coliseum & Expo Center	61,574,329		459,344		459,344		1,147,098		1,147,098
TOTAL - Non Rent Agencies	1,482,649,922	9,795,551	1,075,078	189,940	11,060,568	12,937,090	1,974,530	214,553	15,126,173
% of Total		83.4%	7.6%	1.3%	100.0%	85.5%	13.1%	1.4%	100.0%

**AGENCIES IN COP BUILDINGS**  
Based on Lease-Purchase Payment Rates

Agency	Replacement Cost	ADOA Recommended Rate (746%)				FY 2003 Building Renovation Formula Requirement			
		General Fund	Other Approp Funds	Non-Approp Funds	Total	General Fund	Other Approp Funds	Non-Approp Funds	Total
Records Retention Center, Phase II	4,292,432	32,022			32,022	22,455			22,455
Library for the Blind	1,476,036	11,011			11,011	14,671			14,671
<b>SUPREME COURTS BUILDING</b>									
Supreme Court (80.6%)	30,872,341	230,308			230,308	161,505			161,505
Dept of Education (3.8%)	1,455,520	2,671		8,187	10,858	1,873			7,614
Library, Archives & Public Records (15.6%)	5,975,292	44,576			44,576	31,259	5,741		31,259
<b>TOURISM WELCOME CENTER</b>	519,377	3,875			3,875	7,916			7,916
ALEOAC - DPS	2,505,703			18,693	18,693			34,960	34,960
AHCCCS	18,079,046	134,870			134,870	146,597			146,597
Agriculture Laboratory	4,293,773	32,032			32,032	73,970			73,970
<b>CAPITAL CENTER</b>									
ADOA (19.8%)	4,466,641	18,660	14,661		33,321	19,628	15,422		35,050
Attorney General (80.2%)	18,092,154		134,967		134,967		141,971		141,971
<b>CENTRE POINTE West - DHS</b>	2,801,746	10,032	4,180	6,688	20,901	15,478	6,449	10,319	32,246
<b>CENTRE POINTE East</b>									
DHS (32.5%)	910,567	3,261	1,359	2,174	6,793	5,030	2,096	3,354	10,480
Nursing Board (39.7%)	1,112,293		8,298		8,298		12,801		12,801
Vacant (27.8%)	778,885	5,810			5,810	8,964			8,964
<b>CORPSTEIN BUILDING - Arts Commission</b>	742,749	5,541			5,541	19,428			19,428
<b>DES WEST</b>									
ADOA (1.8%)	600,379	4,479			4,479	3,141			3,141
DES (98.2%)	32,754,023	139,277	41,539	63,530	244,345	97,668	29,129	44,551	171,348
<b>SUN CITY - DPS</b>	419,038		3,126		3,126		4,604		4,604
<b>DOUBLETREE</b>									
Board of Medical Examiners (56.7%)	1,956,064		14,592		14,592		13,303		13,303
Osteopathic Examiners Board (7.9%)	272,538		2,033		2,033		1,853		1,853
Structural Pest Control Board (35.4%)	1,221,246		9,110		9,110		8,306		8,306
<b>KINGMAN STATE OFFICE BUILDING</b>									
AHCCCS (16.8%)	363,165	1,355		1,355	2,709	665		665	1,330
DES (77%)	1,664,506	9,810	1,366	1,242	12,417	4,815	670	610	6,095
Registrar of Contractors (3.8%)	82,144		613		613		301		301
Vacant (2.4%)	51,881	387			387	190			190
<b>RETIREMENT BUILDING - DHS</b>	3,924,070			29,274	29,274			41,057	41,057
<b>REVENUE BUILDING - Dept of Revenue</b>	25,501,245	186,435	3,805		190,239	169,959	3,469		173,428
<b>STATE OFFICE BUILDING</b>									
ADOA (39.6%)	4,562,516		34,036		34,036		99,962		99,962
DHS (1.6%)	184,344			1,375	1,375			4,039	4,039
Land Dept (58.8%)	6,774,645	50,539			50,539	148,429			148,429
<b>SUN STATE SAVINGS</b>									
ADOA (0.3%)	59,943	447			447	376			376
Auditor General (27.2%)	5,434,858	40,544			40,544	34,118			34,118
Banking (16.5%)	3,296,881	22,135		2,459	24,595	18,627		2,070	20,697
Insurance (36.4%)	7,273,119	40,151		14,107	54,257	33,787		11,871	45,658
Real Estate (19.6%)	3,916,295	29,216			29,216	24,585			24,585
<b>TUCSON OFFICE BUILDING</b>									
ADOA (7.7%)	2,873,609	15,006	6,431		21,437	17,776	7,618		25,395
Agriculture (1.5%)	559,794	3,383	793		4,176	4,007	940		4,947
Attorney General (1.5%)	559,794	4,176			4,176	4,947			4,947
Auditor General (2.3%)	858,351	6,403			6,403	7,585			7,585
Building & Fire Safety (1.9%)	709,072	5,290			5,290	6,266			6,266
Corporation Commission (3.1%)	1,156,908		8,631		8,631		10,224		10,224
Court of Appeals (22%)	8,210,311	61,249			61,249	72,556			72,556
DES (78.1%)	10,486,807	46,157	14,082	17,993	78,232	54,677	16,681	21,315	92,674
Dept of Education (2.1%)	783,712	4,209		1,637	5,846	4,987		1,939	6,926
DEQ (5.2%)	1,940,619		14,477		14,477		17,150		17,150
Gaming Dept (0.2%)	74,639		557		557		660		660
Governor's Office (1.7%)	634,433	4,733			4,733	5,607			5,607
DHS (6.7%)	2,500,413	8,580	4,290	5,782	18,653	10,164	5,082	6,850	22,097
Insurance (1.2%)	447,835	2,472		869	3,341	2,929		1,079	3,958
Dept of Liquor Licenses (1.1%)	410,516	3,062			3,062	3,628			3,628
Real Estate (1.8%)	671,753	5,011			5,011	5,936			5,936
Registrar of Contractors (7%)	746,392		5,568		5,568		6,596		6,596
Structural Pest Control Board (0.2%)	74,639		557		557		660		660
Supreme Court (4.9%)	1,878,660	13,642			13,642	16,160			16,160
Veteran's Commission (0.6%)	223,918	1,102	568		1,670	1,306		673	1,979
Dept of Water Resources (4.2%)	1,567,423	11,693			11,693	13,852			13,852
<b>TOTAL - COP Agencies</b>	<b>234,007,853</b>	<b>1,255,689</b>	<b>329,639</b>	<b>175,344</b>	<b>1,760,613</b>	<b>1,297,518</b>	<b>406,620</b>	<b>190,368</b>	<b>1,894,506</b>
% of Total		71.3%	18.7%	10.0%	100.0%	68.5%	21.5%	10.0%	100.0%

## **ATTACHMENT I**

**JOINT LEGISLATIVE STUDY COMMITTEE**

**ON THE**

**BUILDING RENEWAL FORMULA AND PROCESS**

**POTENTIAL MOTIONS**

1. Recommend that the Legislature prioritize the full funding of the building renewal formula during the budget process.
2. Recommend that the Legislature use correction fund monies to fund prison building renewal, to the extent those monies are available.

**ATTACHMENT J**

## SUMMARY

	FY 2002 Building Renewal Formula Requirements			
	General Fund	Other Approp Funds	Non-Approp Funds	Total
FY 2001 Rent Collections (to COSF)	7,724,700	2,224,700	1,068,200	11,017,600
Less ADOA COSF Operating Budget (FY 2001)				(8,521,700)
COSF Available for Building Renewal				2,495,900
Plus New Assessment on Non-Rent Agencies (to COSF)	12,920,931	485,176	214,553	13,620,660
Plus New Assessment on COP Tenant Agencies (to COSF)	1,297,518	406,620	190,368	1,894,506
TOTAL COSF Available for Building Renewal				18,011,066
FY 2002 Building Renewal Requirement				18,116,748
Surplus/(Deficit)				(105,682)

## NON-RENT AGENCIES

Based on Rent/Salary Adjustment Ratios

Agency	FY 2002 Building Renewal Formula Requirement			
	General Fund	Other Approp Funds	Non-Approp Funds	Total
State Capitol Building 1898	178,671			178,671
State Capitol Building 1919	68,200			68,200
Justice Building	104,934			104,934
House Building	321,510			321,510
Senate Building	321,510			321,510
Records Retention Center, Phase I	25,442			25,442
JLBC	7,691			7,691
Carnegie Library	16,912			16,912
Department of Agriculture	21,350			21,350
Az Historical Society	418,001			418,001
Department of Corrections	5,518,816			5,518,816
Department of Economic Security	366,817	110,737	214,553	692,107
Department of Emergency & Military Affairs	1,355,303			1,355,303
Department of Environmental Quality	16,423	18,520	?	34,943
Game & Fish Department	--	--	--	--
Department of Health Services	1,476,769	146,054	?	1,622,823
Department of Juvenile Corrections	440,874			440,874
Land Department	12,148	123		12,271
Lottery	--	--	--	--
Parks Board	519,995	164,209		684,204
Pioneer's Home	180,592			180,592
Power Authority	--	--	--	--
Prescott Historical Society	118,423			118,423
Department of Public Safety	780,850			780,850
School for the Deaf & Blind	641,664			641,664
Veteran's Service Commission	8,035	45,534		53,569
Veteran's Memorial Coliseum & Expo Center	--	--	--	--
TOTAL - Non Rent Agencies	12,920,931	485,176	214,553	13,620,660
% of Total	94.9%	3.6%	1.6%	100.0%



# **AGENCIES IN COP BUILDINGS**

Based on Lease-Purchase Payment Ratios

Agency	FY 2002 Building Renewal Formula Requirement			
	General Fund	Other Approp Funds	Non-Approp Funds	Total
Records Retention Center, Phase II	22,455			22,455
Library for the Blind	14,671			14,671
<b>SUPREME COURTS BUILDING</b>				
Supreme Court (80.6%)	161,505			161,505
Dept of Education (3.8%)	1,373		5,741	7,614
Library, Archives & Public Records (15.6%)	31,259			31,259
<b>TOURISM WELCOME CENTER</b>	7,916			7,916
ALEOAC - DPS			34,960	34,960
AHCCCS	146,597			146,597
Agriculture Laboratory	73,970			73,970
<b>CAPITAL CENTER</b>				
ADOA (19.8%)	19,628	15,422		35,050
Attorney General (80.2%)		141,971		141,971
<b>CENTRE POINTE West - DHS</b>	15,478	6,449	10,319	32,246
<b>CENTRE POINTE East</b>				
DHS (32.5%)	5,030	2,096	3,354	10,480
Nursing Board (39.7%)		12,801		12,801
Vacant (27.8%)	8,964			8,964
<b>CORPSTEIN BUILDING - Arts Commission</b>	19,428			19,428
<b>DES WEST</b>				
ADOA (1.8%)	3,141			3,141
DES (98.2%)	97,668	29,129	44,551	171,348
<b>SUN CITY - DPS</b>		4,604		4,604
<b>DOUBLETREE</b>				
Board of Medical Examiners (56.7%)		13,303		13,303
Osteopathic Examiners Board (7.9%)		1,853		1,853
Structural Pest Control Board (35.4%)		8,306		8,306
<b>KINGMAN STATE OFFICE BUILDING</b>				
AHCCCS (16.8%)	665		665	1,330
DES (77%)	4,815	670	610	6,095
Registrar of Contractors (3.8%)		301		301
Vacant (2.4%)	190			190
<b>RETIREMENT BUILDING - DHS</b>			41,057	41,057
<b>REVENUE BUILDING - Dept of Revenue</b>	169,959	3,469		173,428
<b>STATE OFFICE BUILDING</b>				
ADOA (39.6%)		99,962		99,962
DHS (11.6%)			4,039	4,039
Land Dept (58.8%)	148,429			148,429
<b>SUN STATE SAVINGS</b>				
ADOA (0.3%)	376			376
Auditor General (27.2%)	34,118			34,118
Banking (16.5%)	18,627		2,070	20,697
Insurance (36.4%)	33,787		11,871	45,658
Real Estate (19.6%)	24,585			24,585
<b>TUCSON OFFICE BUILDING</b>				
ADOA (7.7%)	17,776	7,618		25,395

Agriculture (1.5%)	4,007	940		4,947
Attorney General (1.5%)	4,947			4,947
Auditor General (2.3%)	7,585			7,585
Building & Fire Safety (1.9%)	6,266			6,266
Corporation Commission (3.1%)		10,224		10,224
Court of Appeals (22%)	72,556			72,556
DES (28.1%)	54,677	16,681	21,315	92,674
Dept of Education (2.1%)	4,987		1,939	6,926
DEQ (5.2%)		17,150		17,150
Gaming Dept (0.2%)		660		660
Governor's Office (1.7%)	5,607			5,607
DHS (6.7%)	10,164	5,082	6,850	22,097
Insurance (1.2%)	2,929		1,029	3,958
Dept of Liquor Licenses (1.1%)	3,628			3,628
Real Estate (1.8%)	5,936			5,936
Registrar of Contractors (2%)		6,596		6,596
Structural Pest Control Board (0.2%)		660		660
Supreme Court (4.9%)	16,160			16,160
Veteran's Commission (0.6%)	1,306	673	--	1,979
Dept of Water Resources (4.2%)	13,852			13,852
<b>TOTAL - COP Agencies</b>	<b>1,297,518</b>	<b>406,620</b>	<b>190,368</b>	<b>1,894,506</b>
<b>% of Total</b>	<b>68.5%</b>	<b>21.5%</b>	<b>10.0%</b>	<b>100.0%</b>